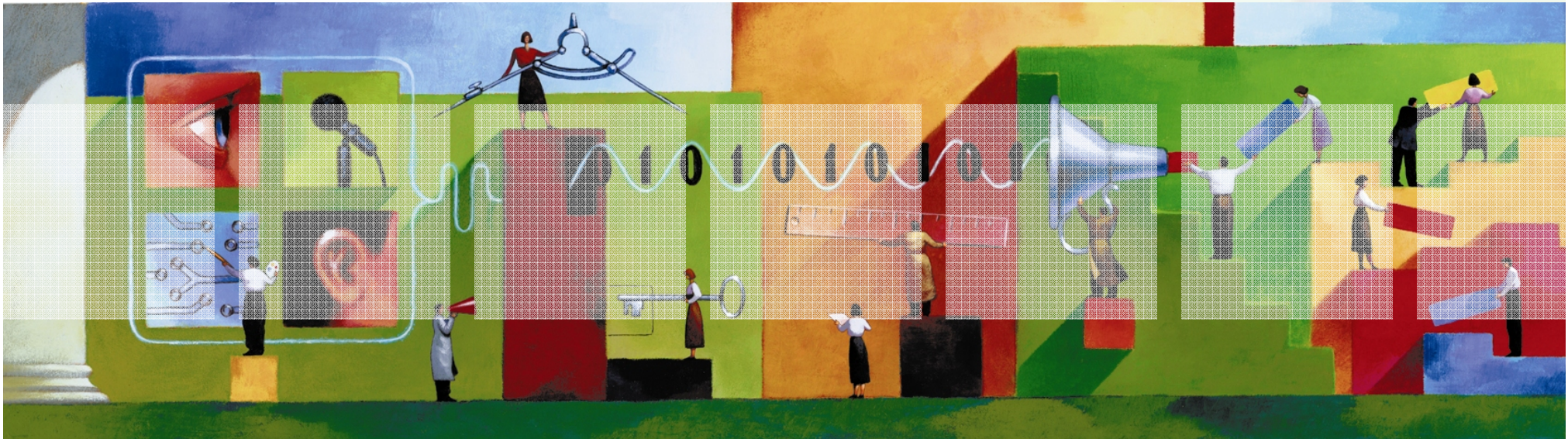


# MERCER

Human Resource Consulting



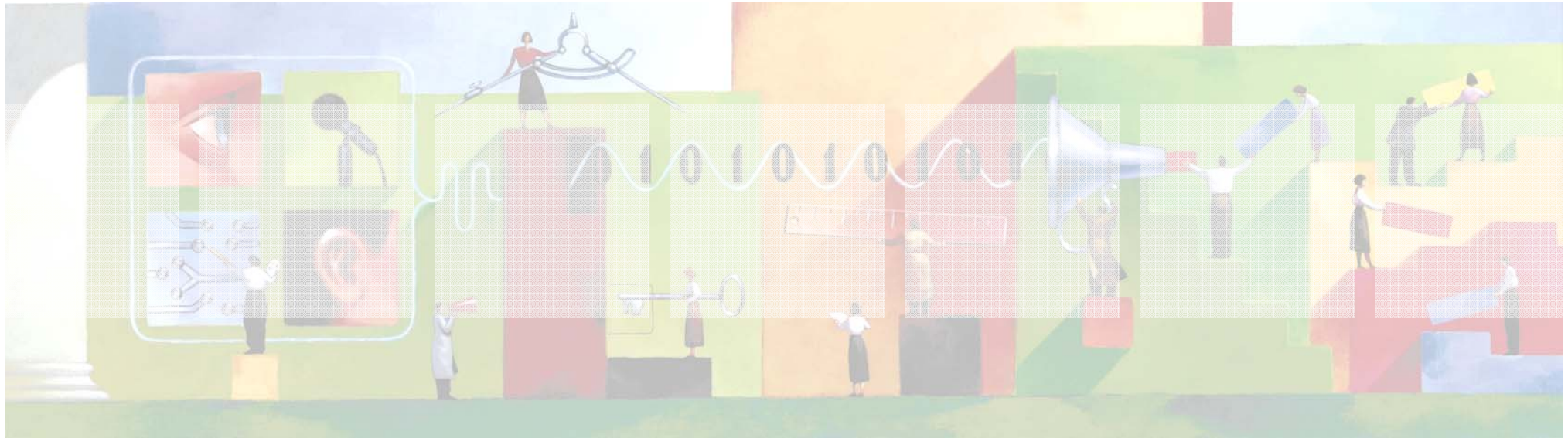
## State Comprehensive Pay Plan Review Methodology, Findings and Recommendations

May 23, 2007



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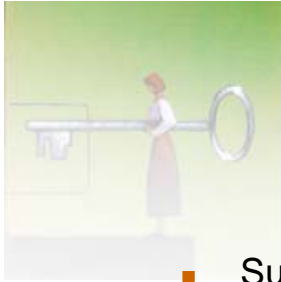


## Project Overview and Objectives



## Project Overview

- The State of Tennessee Department of Personnel retained Mercer to analyze the State's pay plan for the approximately 43,000 full-time employees of the Executive Branch, excluding higher education. While the study gathered input on issues from key stakeholders from other parts of government and resulting recommendations may impact other employees, the focus is on the Executive Branch programs. The project scope includes:
  - Benchmarking the competitiveness of the state's total cash compensation (base pay plus any incentives including longevity bonuses) for a sample of 120 jobs
  - A total remuneration review (combining base pay, other cash compensation and benefits) to assess the competitiveness of the State's total rewards package compared to that of other public and private employers in Tennessee, to set the context for actions to be taken with respect to pay.
- The project included reviewing the general employee base pay structures and the approach to maintaining them, and making recommendations for change to enhance the competitiveness of the base pay program, with a focus on how to deliver base pay increases over time to align pay with employee contributions and achieve competitiveness, recognizing performance and other factors as the State deems appropriate.
- This project was undertaken as part of a group of initiatives designed to enhance the State's ability to attract, retain and motivate staff. In 2006 the Department of Personnel worked with the Tennessee State Employees' Association (TSEA) to conduct a joint study of salary compression, analyzing whether employees are moving through the pay ranges appropriately so that pay reflects experience and contribution in the job. The initiative resulted in a plan to address compression, with funding appropriated to implement approximately one-third of the plan in fiscal year 2006-07.



## Project Overview

- Subsequently, at the direction of the 104<sup>th</sup> General Assembly, the Commissioner of Personnel adopted an action plan for reviewing and developing a new or revised comprehensive pay plan over a three year period. The plan included this project as well as a review of the internal equity of job classifications to follow this project.
- The perceived need for a methodology for moving employees through the range (to offset future compression), employee and manager concerns about pay, and concerns regarding attraction and retention gave rise to initiatives to update the pay plan and improve employee pay for the State.
- \*Based on the Department of Personnel's turnover statistics, average voluntary turnover for full-time state employees for 2006 was 9.4%; the average employee has 12 years of service, and the average "ex-employee" left with 7.5 years of service. For the core group of employees covered in this project, 27% have less than 3 years of service (11,447 employees); 58% have less than 10 years.
- There are some jobs where turnover may be perceived as a significant problem either because the turnover rate is significantly higher or because of the numbers/critical mass of exiting staff. The magnitude of the problem appears to be accelerated by the difficulties and time required to hire new replacement employees. For example, 29 job classes with 5 or more employees have turnover rates of 25% or higher. (See Appendix C for a listing.)

Note that the State's voluntary separation rate does not appear to be significantly out of line with published benchmarks – the Saratoga Institute Retention and Separations Results: U.S. Human Capital Effectiveness Report 2006/2007 reports median exempt turnover for 2005 of 8.6% for all firms and 9% for the public sector. They report 2005 nonexempt turnover of 11.5% (nonexempt not broken out by industry sector).

\* Excludes dismissals, promotions, and transfers



## Project Objectives

- In summary, the project objectives are to:
  - Determine the competitiveness of the State's current base pay, total cash (base plus incentives including longevity bonus) and total remuneration (cash compensation plus benefits) for Executive Branch employees, compared to other employers within the State of Tennessee
  - Understand how the current pay plan designs and policies designed for the Executive Branch compare to general market practices, and their impact on the State's ability to deliver competitive compensation
  - Recommend revisions to the employee pay structures to improve the competitiveness and perceived appropriateness of pay for the State's employees
  - Recommend revisions to pay policies to improve how employees are paid in the range and how they move through the range both to improve competitiveness and address employee perceptions of lack of pay movement and inequity due to compression.



## Project Approach

- Mercer's point of view is that a major review of any one element of total rewards should consider the larger context of the total rewards package – part of reviewing pay in the larger context is to understand three key perspectives – employer, employee, and cost/competitiveness.



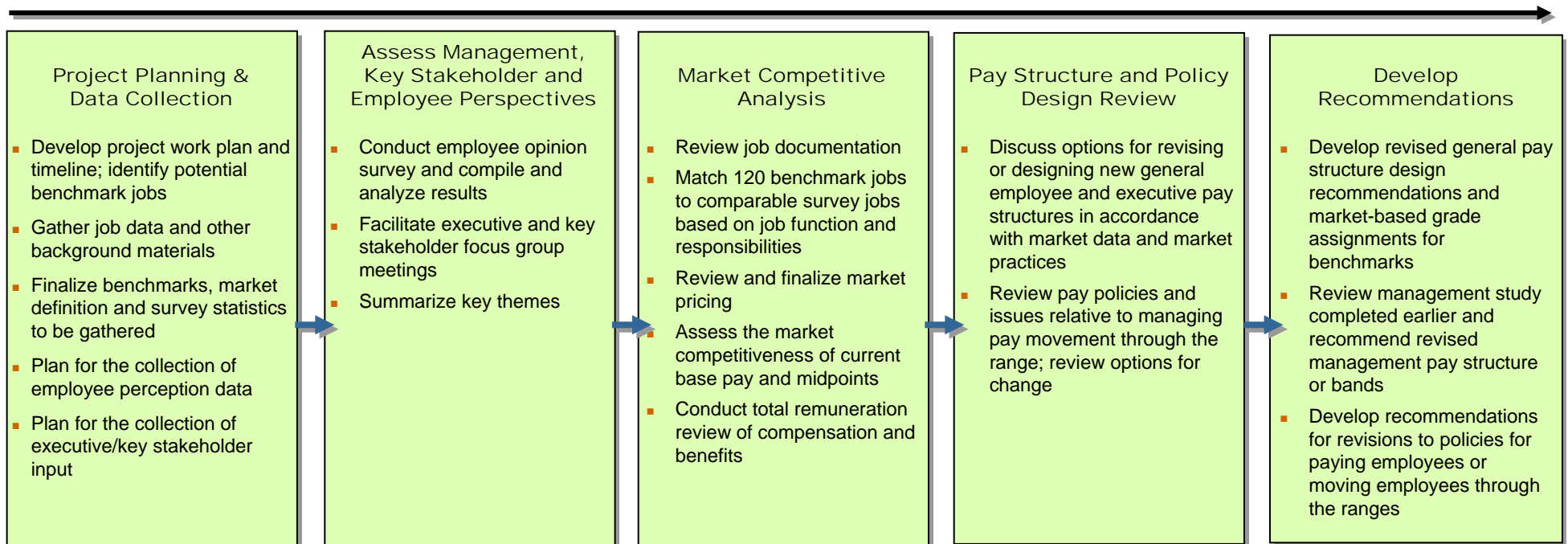
- Getting the rewards combination right requires input from three perspectives:
  - Employer – **How well do rewards programs foster *knowledge, competencies, and behaviors* necessary for business success?**
  - Employee – **Are rewards part of a compelling *value proposition* that employees understand and support?**
  - Cost – **Are rewards costs *affordable and sustainable*, when balanced with funding considerations?**

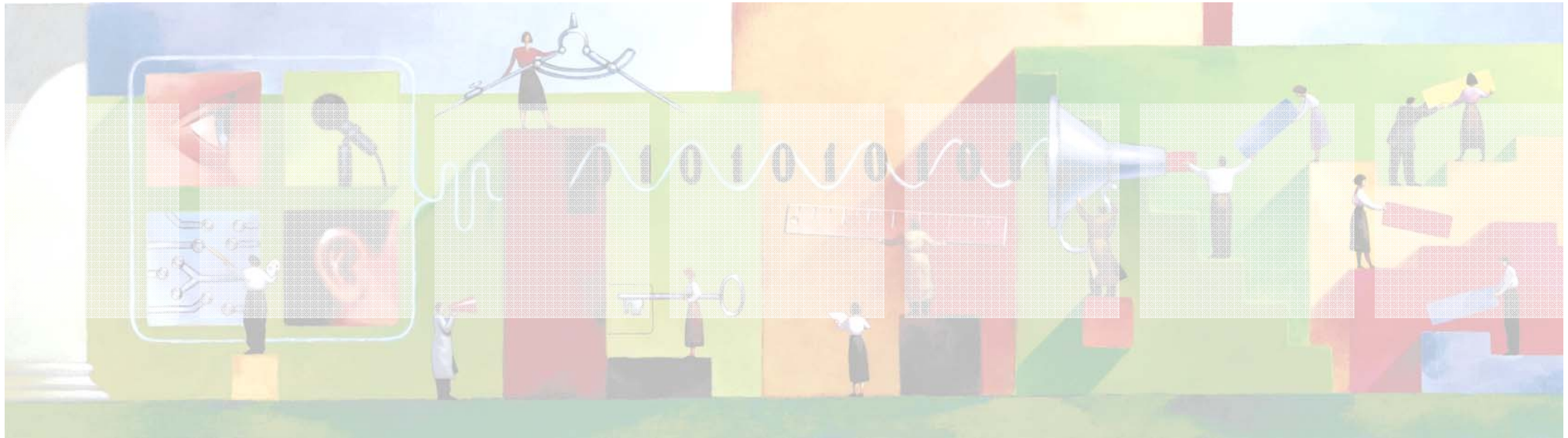




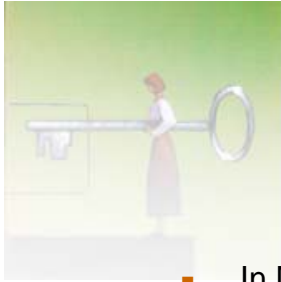
## Project Work Plan

- The work approach was designed to incorporate input from the three perspectives of employer requirements, employee preferences and sustainable costs/competitiveness:





## Executive Summary



## Employer Perspectives/Concerns Focus Group Results

- In March 2007, Mercer conducted twelve focus group sessions with representatives of Constitutional Offices, Cabinet and Non-Cabinet Agencies, the Governor's Office, and House and Senate leadership, involving 65-70 participants. Key themes in the comments are summarized below.
  - Executives expressed a variety of concerns about pay, recruiting and retention. They identified the civil service hiring process as presenting significant challenges – it was not clear to what extent recruiting is a problem because of pay or because of civil service hiring requirements. All agreed that significant changes in civil service hiring restrictions are needed.
  - Varied job groups critical to achievement of agency objectives were identified as a concern for attraction and retention – such as attorneys, auditors, accountants, engineers, IT positions, educational consultants, physicians, dentists, nurses, therapists, mental health professionals, wardens, deputy wardens, detention facility specialists, and correctional officers.
  - Benefit plans are perceived as good, and helpful in recruiting and retaining; benefits support retention because they become more important over time. Lack of understanding of benefits hampers effectiveness, and the non-competitive 401(k) match limits the attractiveness of retirement plans.
  - Base pay is perceived as not competitive with the private sector, local governments, or surrounding states, and is perceived as a barrier to hiring and retention. It is viewed as difficult to attract new talent or recent college graduates with a “benefits-heavy” rewards philosophy since they are interested in base pay.
  - Several agencies mentioned particular problems recruiting in Nashville or in larger cities, with fewer problems described in recruiting outside of the metropolitan areas. Agencies with healthcare employees mentioned a variety of pay challenges.
  - Agencies were mixed in their preferences for pay for performance, with the general consensus being that the State's current performance appraisal processes may not provide adequate support for it, and with concerns that it would not be administered consistently across agencies.
    - ▶ Accordingly, the top priority is to be competitive in the market while pay for performance is the second priority.
    - ▶ And several agencies mentioned preferences for step structures.

Note that in general agencies not restricted to civil service hiring expressed fewer recruiting and retention concerns or challenges.



## Employee Perspectives/Concerns Opinion Survey Top Line Results

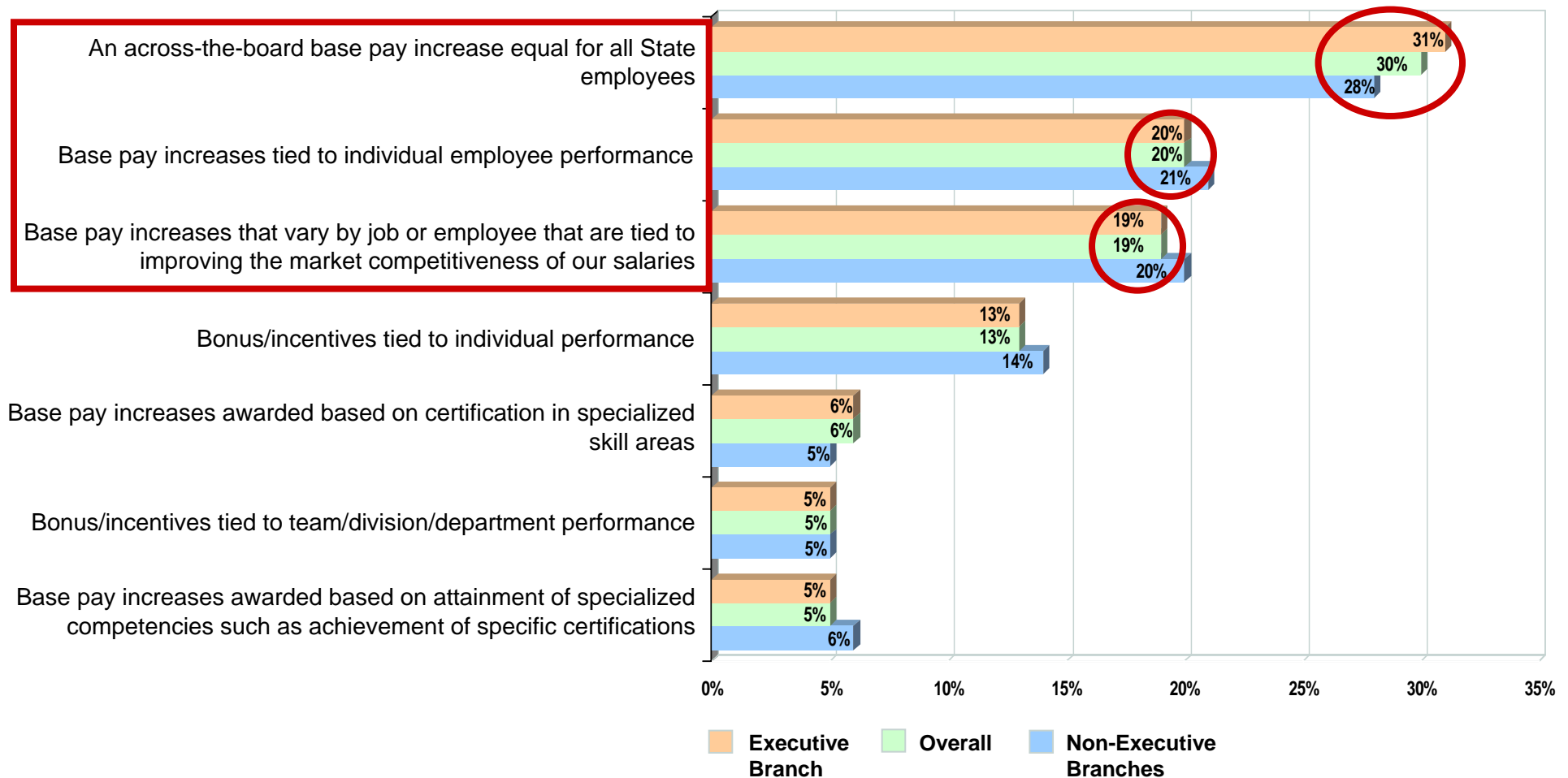
- In March 2007, Mercer surveyed State employees on pay and benefit concerns and received responses from 11,036 Executive Branch employees and 1,600 other State employees. Executive Branch employee results are significantly more favorable on 6 of the 20 survey items (30%) for which Mercer has normative data, and significantly less favorable on 14 of the 20 normative survey items (70%).\*
- Compared to the norm, Executive Branch employees:
  - Believe their pay is worse than the pay offered by other organizations in both their geographic area (-36%) and industry (-32%).
  - Believe their benefits are as good as or better than those offered by other organizations in the public sector (+11%).
- Pay and Benefits – Executive Branch responses reflect relatively low scores except on benefit satisfaction:
  - 67% of employees feel that their benefits are as good as or better than those offered by other organizations in the public sector; compared to 56% for the Mercer norm.
  - Roughly half (49%) of employees say they understand how their pay is determined; compared to 78% for the Mercer norm.
  - 36% of employees feel their manager provides them with clear information about decisions affecting their pay, compared to 44% for the Mercer norm.
  - Only one-third (28%) of employees feel they are paid fairly compared to other employees in similar jobs at the State, compared to 52% for the Mercer norm.
  - Less than one-fifth of employees believe their pay is as good or better than the pay offered by other organizations in their geographic area (17%) or better than their industry (14%); this is below the Mercer norm at (-36%) and (-32%), respectively.

\* Results are compared to Mercer's norm, comprising data from over 10,000 employees in 800 public and private organizations from across the U.S.



## Employee Perspectives/Concerns Opinion Survey Top Line Results

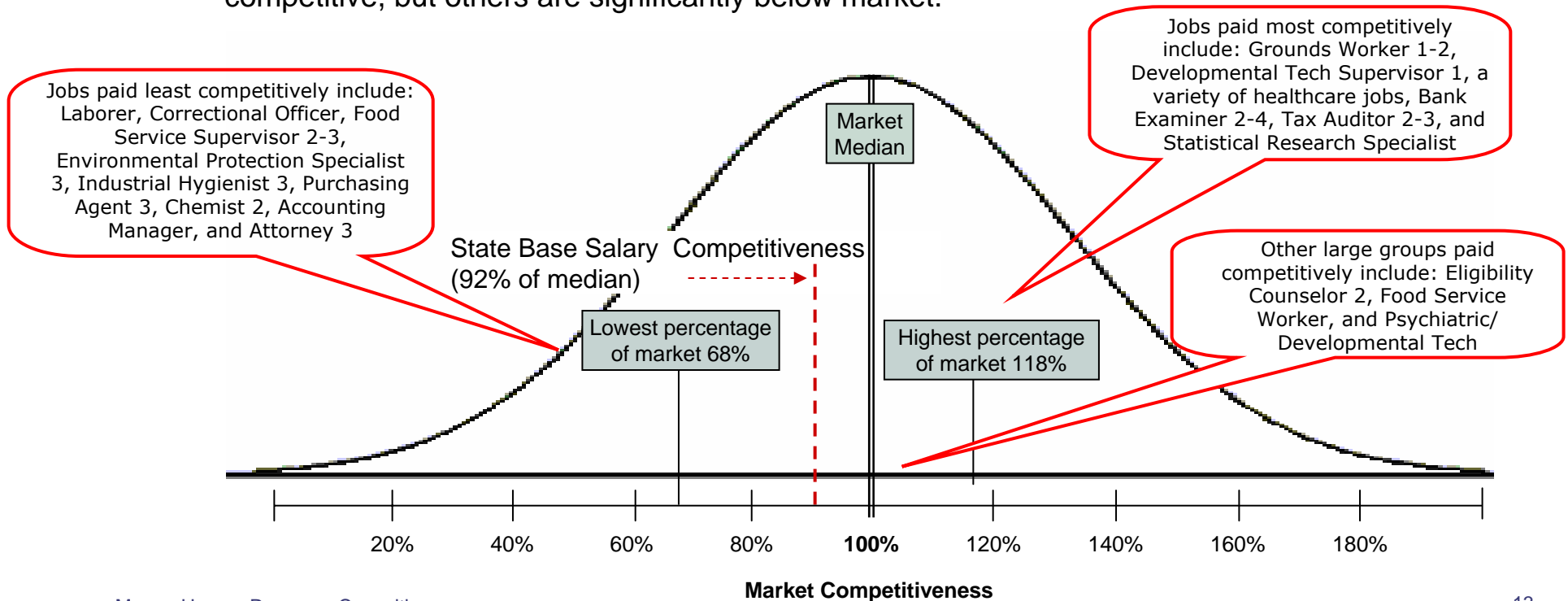
- An across-the-board increase to all employees, increases tied to individual performance and increases that are tied to market competitiveness are cited as the most important types of pay alternatives.





## Cash Compensation Market Analysis Results Base Pay Competitiveness

- Mercer benchmarked compensation for a sample of 120 jobs covering approximately 41% of the State's full-time workforce.
- Based on the sample, actual average State of Tennessee employee base salary for the benchmark jobs is 92% of market median.
  - However, on average, director level positions are paid significantly less competitively at 84% of median, or 16% below
  - And, jobs vary widely in competitiveness, from 68% and 118% of median – some jobs are very competitive, but others are significantly below market.



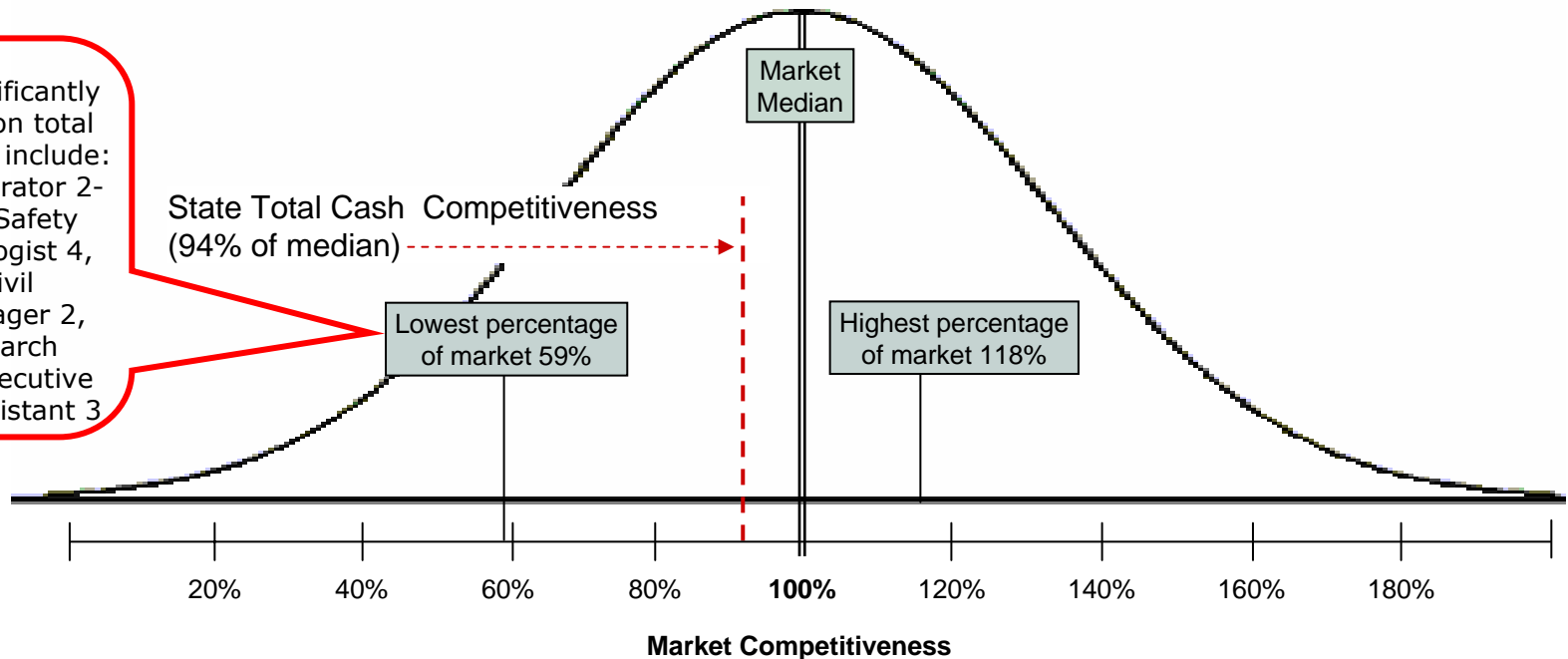


## Cash Compensation Market Analysis Results

### Total Cash Competitiveness

- Based on the benchmark sample, State employees' total cash (including the longevity bonus) compared to market total cash (base pay plus incentives) is more competitive than base pay at 94% of median – the longevity bonus improves competitiveness for the general population.
  - The State's longevity bonuses run 3.2% of base pay on average, and 4% of base for those who receive them.
  - However, total cash (base pay plus longevity bonus) is 3 percentage points less competitive than base pay alone (at 81%) for Directors, as they are typically eligible for performance based incentives with larger potential payouts in the external market.
  - And again, competitiveness varies widely with some jobs very competitive, but others significantly be

Example jobs significantly **less** competitive on total cash than on base include: Database Administrator 2-3, Occupational Safety Specialist 3, Geologist 4, Biologist 3, Civil Engineering Manager 2, Statistical Research Specialist, and Executive Administrative Assistant 3

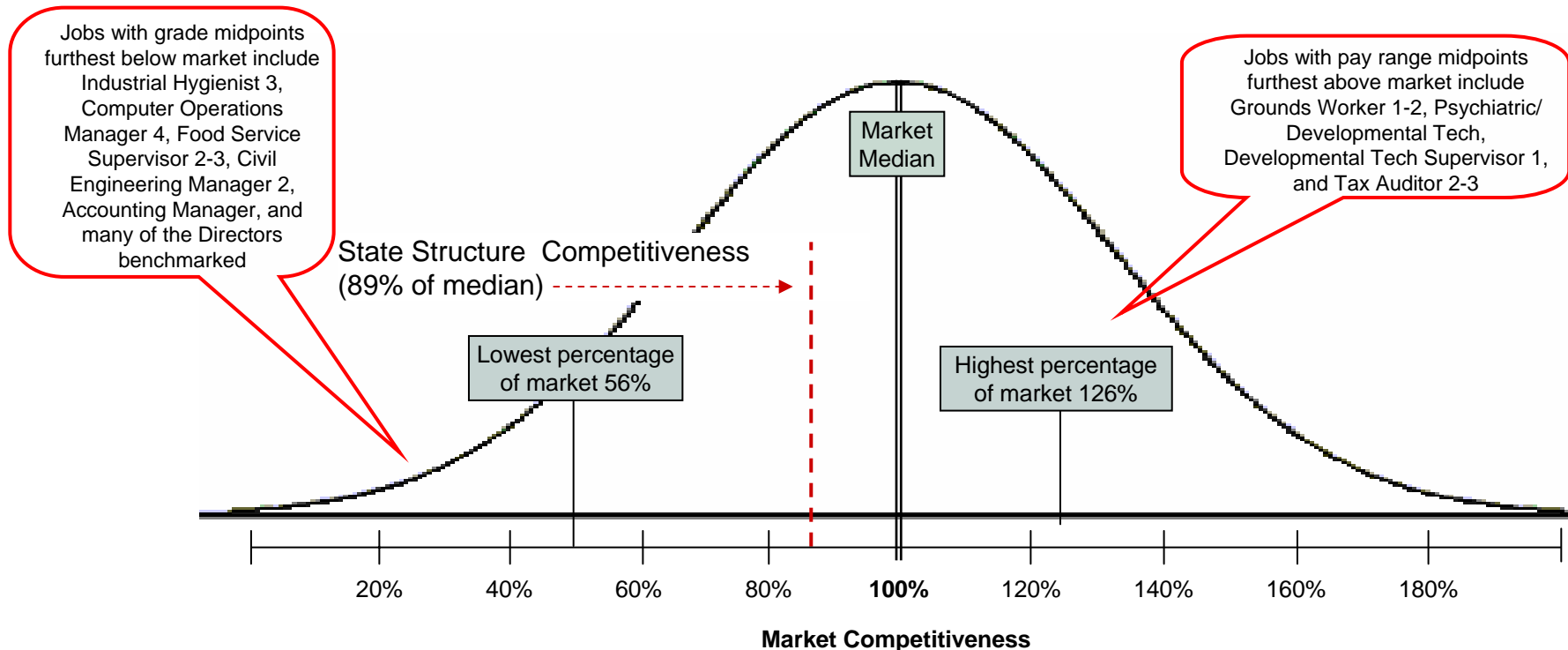




## Cash Compensation Market Analysis Results

### Pay Structure Competitiveness

- Pay range midpoints are intended to align with market median base pay market values. Based on the benchmark sample, the structure is 89% of market median overall, but the overall statistic is somewhat misleading:
  - The range midpoints for the lower/middle part of the structure (grades 10-25) are more competitive than the top – the Director ranges average 73% of median or 27% below median
  - Competitiveness for the benchmark jobs varies widely from 56% to 126% of median – only 71% of jobs are within one to two grades (+/-15%) of where they should be based on market median.





## Cash Compensation Market Analysis Results Geographic Pay Differentials Within the State

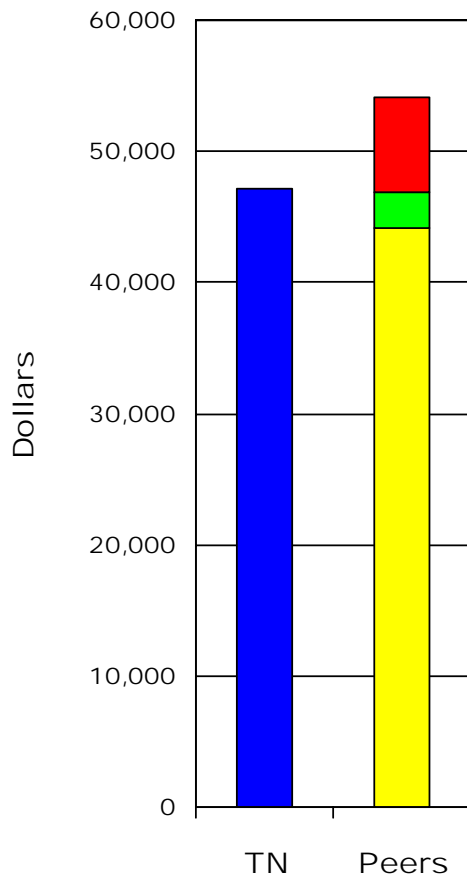
- Although a detailed analysis of geographic pay differentials is outside the scope of the project, the Economic Research Institute Survey indicates that there are significant variations in pay levels across the state.
- Major cities like Nashville and Memphis track within 5% of the national average, while other cities track up to 14% below them.
- This means that a job that is 10-15% below market in Memphis or Nashville could be fully competitive in Cookeville or Martin.



## Total Remuneration Market Analysis Results

### Total Remuneration Comparison

- Mercer compared the State's benefit plans to those of a select sample of Tennessee employers as show below.
- Based on the combination of the pay market data for broader samples of employers within the state, and the benefits data for a select sample of thirteen peer employers, the State's total remuneration is fully competitive at the median.



- Rank: 7 out of 14
- Exceeds peer group median by 1%
- Tennessee's position is driven by a very favorable comparison in the Retirement/Savings area combined with a favorable comparison in the Health/Group area; this is offset by an unfavorable comparison in the Cash Compensation area
  - Retirement/Savings exceeds median by 72%
  - Health/Group exceeds median by 9%
  - \*Cash Compensation trails median by 9%.

#### Benefits Peer Group

- |  |                                       |
|--|---------------------------------------|
| ■ BellSouth Corporation                  | ■ Target Corporation                  |
| ■ Cracker Barrel Old Country Store, Inc. | ■ Tennessee Valley Authority          |
| ■ Dollar General Corporation             | ■ The University of Tennessee         |
| ■ Eastman Chemical Company               | ■ U.S. Office of Personnel Management |
| ■ FedEx Express                          | ■ United Parcel Service               |
| ■ International Paper Company            | ■ Vanderbilt University               |
| ■ Metropolitan Government Nashville      |                                       |

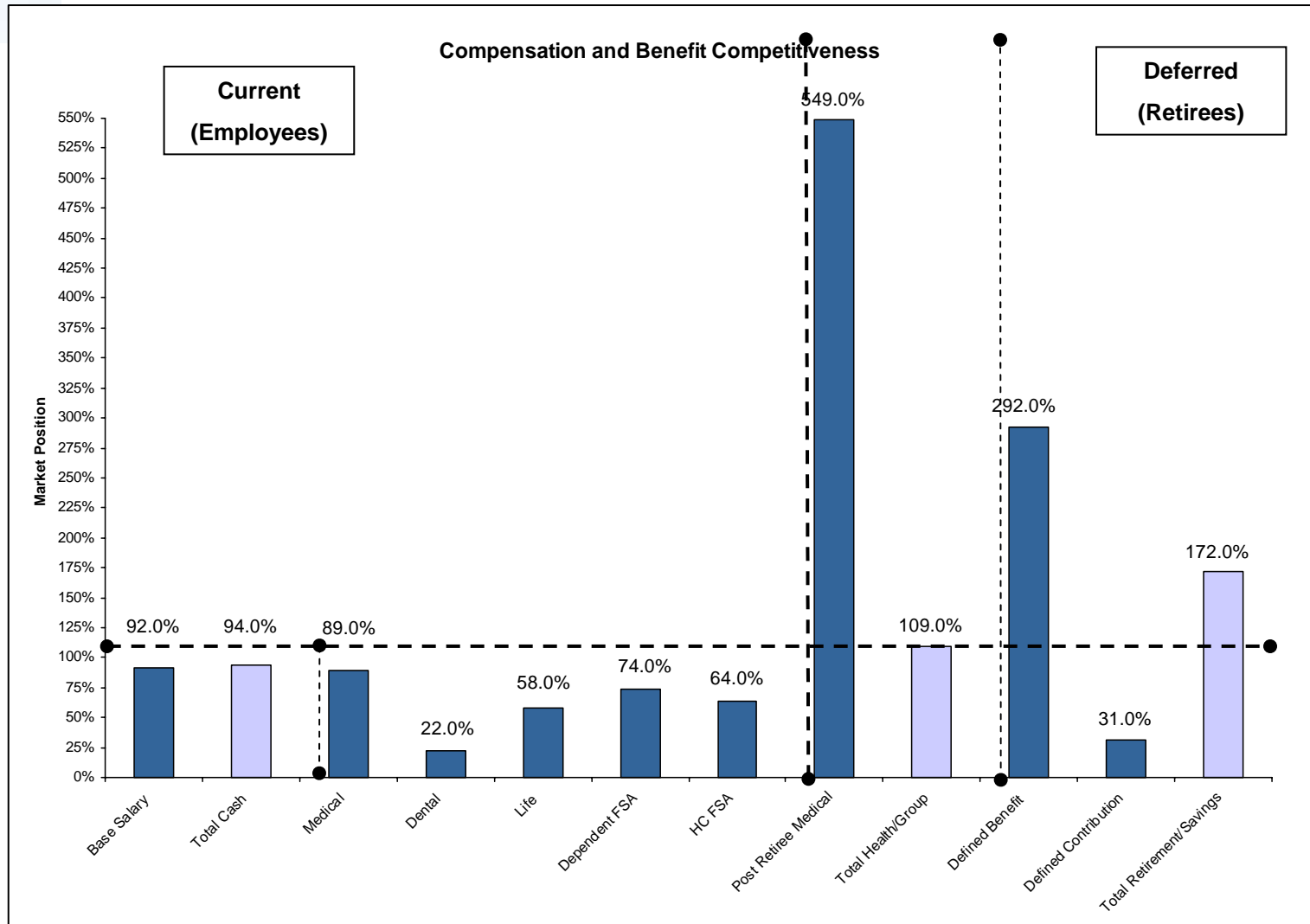
\*Note that the total remuneration analysis was done on a subset of 55 jobs out of the larger benchmark sample.



## Total Remuneration Market Analysis Results

Active employee programs deliver value somewhat below competitive standards while retiree programs exceed typical market practice

- Compensation and employer paid benefits combined are competitive with the peer group median at 101% of median.
- The competitiveness of individual programs varies widely ranging from a low of about 22% of the market median to a high of more than five times the market (549%).



*These comparisons do not include the value of the employee paid benefits, if any, except to the extent they are purchased by the employee with pretax dollars. Paid Time Off benefits are not included.*



## What factors contribute to employee and executive perceptions that pay is low compared to market?

- The current salary range midpoints are generally competitive in the lower to middle part of the structure, but lag the market for the top third or more of the structure. This varies significantly by job – some jobs are up to 26% above median, but others are significantly below. Generally, the higher level jobs in grade 28 and above have grade midpoints significantly below market, although there are some exceptions – and the Director midpoints average 73% of median.
- The current salary range minimums are less competitive than the midpoints because the 60% ranges are wider than is typical in the external market; but the maximums are very competitive.
- Employees who work a 37.5 hour work week in jobs eligible for overtime and comp time may perceive their pay to be less competitive than it actually is because they are comparing their annual compensation to that of employees who work a 40 hour work week (a 6.3% difference).
- Employees may not give full “credit” to the longevity bonus as cash compensation even though it is a significant component of cash compensation.
- Pay opportunities and pay range values should be significantly more competitive in rural areas (up to 10-12 percentage points) than in larger cities, particularly Nashville and Memphis – the State may not be getting credit for delivering competitive pay in the rural areas because of the high visibility of the cities.
- Total remuneration is competitive, but driven by benefits which are likely to be valued more by experienced or mid-career and long service employees than by new hires.



## Rewards Market Trends

- Rising attraction and retention concerns, particularly for hot jobs and strategically critical job groups, are leading employers to review their compensation and total reward strategies.
- Employers are differentiating pay to target scarce resources, such as targeting a higher market position for critical jobs, or providing more pay for performance directly linked to business results in a variety of forms to differentiate rewards for top performers:
  - Different strategies for different groups of jobs
  - Greater differentiation in size of performance-based increases
  - Increased use of bonuses/incentives for more types of jobs, with larger potential payments
  - Increased investment in work-life flexibility.
- Many employers are managing rewards (pay, benefits, careers) holistically, and investing in careers, training and development.



## Base Pay Structures and Policy Recommendations

### General Structure

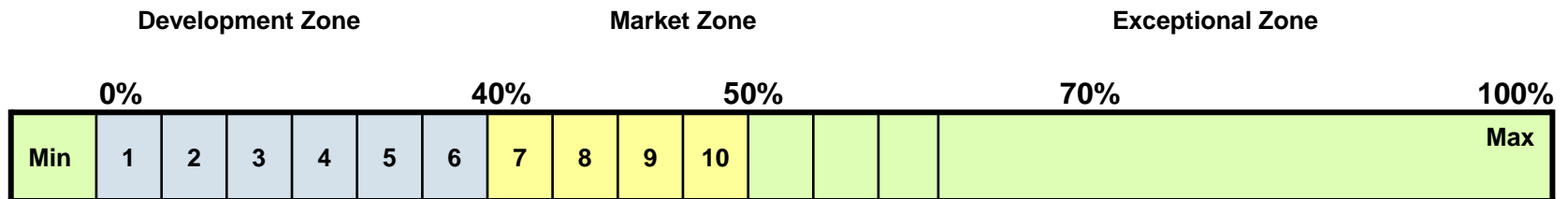
- Adopt a new traditional structure with 6%-10% progressions between salary grade midpoints, 20-25 grades, 50% widths or widths increasing from 50%-60%, and with jobs re-assigned to grades based on market, then reviewed for internal equity (subject to funding).
- Position the range midpoints at 100% of market median; validate the geographic pay variations within the state, and adopt geographic structure variations of 5% and 10% lower than the core structure for use in areas outside major cities, to reflect competitive rates in those geographies.
- Review and consolidate job titles in a job family, role, and career level framework.
- Assign benchmark jobs to the grade whose midpoint is closest to the market median, with non-benchmarks slotted using the job family framework – rationale for any slotting above median should be based on a combination of the following: well documented and significant internal equity concerns, higher than average vacancy and turnover rates, and criticality to agency or directness of impact on key agency objectives and results.
- Based on managers' views of the performance appraisal system and their ability to objectively differentiate levels of performance, the State should proceed cautiously with adopting traditional private sector forms of pay for performance. In order to address the issue of movement through the salary range, Mercer recommends the State use steps to move employees through the range from minimum to midpoint based on time in job and based on employees maintaining fully satisfactory performance with no disciplinary or corrective actions in process. Key decisions include:
  - Time to reach mid-range (drives the size of the steps) and ending point in range for steps (e.g., midpoint)
  - Incorporating additional credit for exceptional credentials that are directly job related or for exceptional performance.
  - Whether to provide additional movement through the range beyond mid-range targeted to employees who consistently exceed expectations.



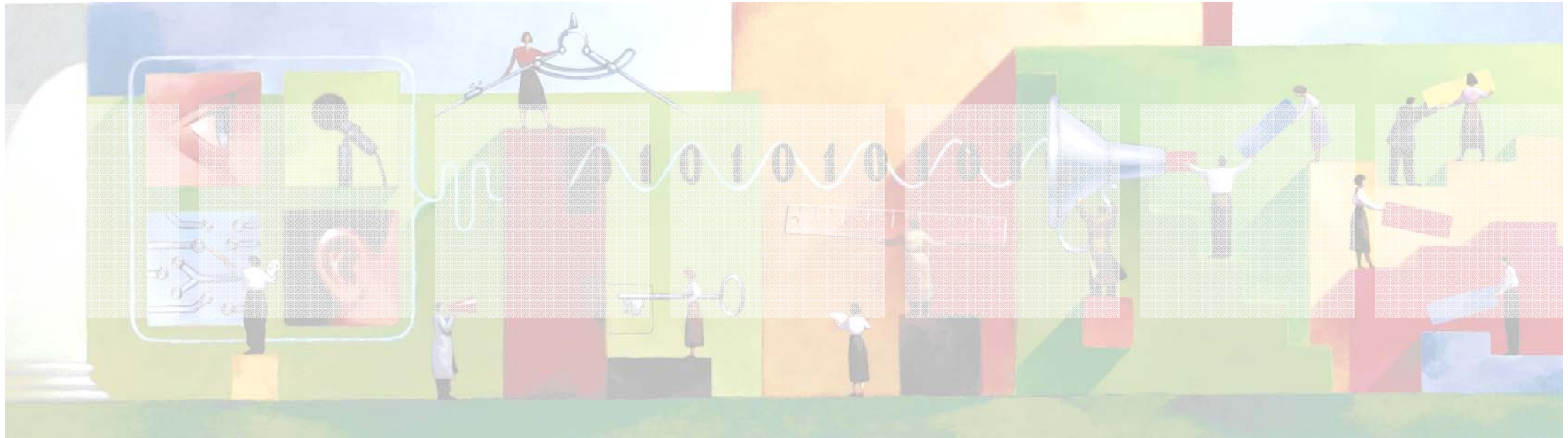
## Base Pay Structures and Policy Recommendations

### General Structure

- Final decisions will depend on cost and funding, but we recommend the following for current employees:



- Steps that take employees to midpoint in 10 years, assuming fully satisfactory performance
- Employees can earn additional steps for:
  - Directly related vocational school certificates or college degrees that are above the minimum requirements for the job but that clearly are directly related to or support performance in the job
  - Licenses or credentials that are not required for the job but that are directly related and that require significant additional training, completion of multiple examinations, etc. such as a CPA, PE, CCP, etc.
  - Exceptional performance (role model performance – top 10% exceptional performance).
- We recommend the State adopt criteria for consistently establishing hiring offers for new employees that use the same criteria as outlined above for establishing an appropriate offer, such that new employees are coming in at rates slightly less than or consistent with current employees for the same credentials.



## Employer Perspectives/Concerns Focus Group Highlights



## Employer Perspectives/Concerns Key Talent Issues

- Recruiting qualified employees is difficult because of salary limitations; private sector and local governments are able to pay more from a base pay perspective.
- Civil service hiring requirements present significant challenges – often following the interview process, there are applicants on the register interested in employment with the State that the Agency considers better suited for the position than other applicants scoring higher on the register.
- There are also candidates that the appointing authority consider qualified, who are or appear to be willing to accept the State's pay package, but they are not in the top five, so the appointing authority cannot hire them.
- Retaining employees is a major concern due to training:
  - Some positions receive no or limited training, and therefore have limited growth opportunities
  - Other positions are viewed as a training ground for employees that want to work in the private sector.
- Currently there is little formal succession planning, and in some areas there are perceived limitations on career paths, making retention more difficult.
- Employees must move to other agencies within the State, or to other companies outside of the State for advancement opportunities.
- Compression is becoming a problem in some agencies, which is causing loss of experienced employees.



## Employer Perspectives/Concerns

How do the current pay and benefit plans help or keep the State from meeting objectives?

- How pay and benefits help meet objectives:
  - The health and welfare and pension plans are perceived as good and are valuable both in recruiting and retaining employees.
  - Benefits allow the State to retain valuable employees because they become more important over time – after employees stay 6-7 years it becomes significantly easier to retain them.
  - The total package is attractive in many rural areas of the State.
- How they keep the state from meeting objectives:
  - Base pay is perceived as not competitive with the private sector, local governments, or surrounding states, and is perceived as a significant barrier to hiring and retention.
  - It is viewed as difficult to attract new talent or recent college graduates with a benefits-heavy rewards philosophy since they are more interested in base pay – in some cases (attorneys for example) they need cash compensation to pay off student loans.
  - Several agencies mentioned particular problems recruiting in Nashville or in larger cities – with fewer problems described in recruiting out in the state.
  - Agencies with healthcare employees mentioned compensation as a particular challenge – perceived lack of flexibility and ability to adjust quickly to market conditions present staffing challenges.
  - Lack of employee understanding of the benefits package hampers the effectiveness of the plan
  - While the pension plan is good, the 401 (k) match is not competitive, which limits the attraction of the benefit to new hires – (perceived lack of flexibility in retirement options).



## Employer Perspectives/Concerns

What is the desired emphasis on pay for performance or other pay alternatives in the State's pay plans?

- Several agencies feel that pay for performance is necessary in the State's pay plans, and that it would allow managers to reward those employees with exceptional work quality who are not currently being rewarded; however, they have several caveats:
  - Must have an improved and objective performance appraisal system with specific requirements for measures so discretion is removed from decision (the current performance management approach is not perceived as an adequate basis for making pay decisions)
  - Managers need to be trained on how to assess performance
  - Consider rewarding group or division performance.
- Some agencies prefer a step program where increases are based on time in job instead of pay for performance; it is perceived as a better fit for this environment:
  - More equality amongst employees
  - Eliminates manager discretion
  - Allows employees to know exactly what to expect each year.

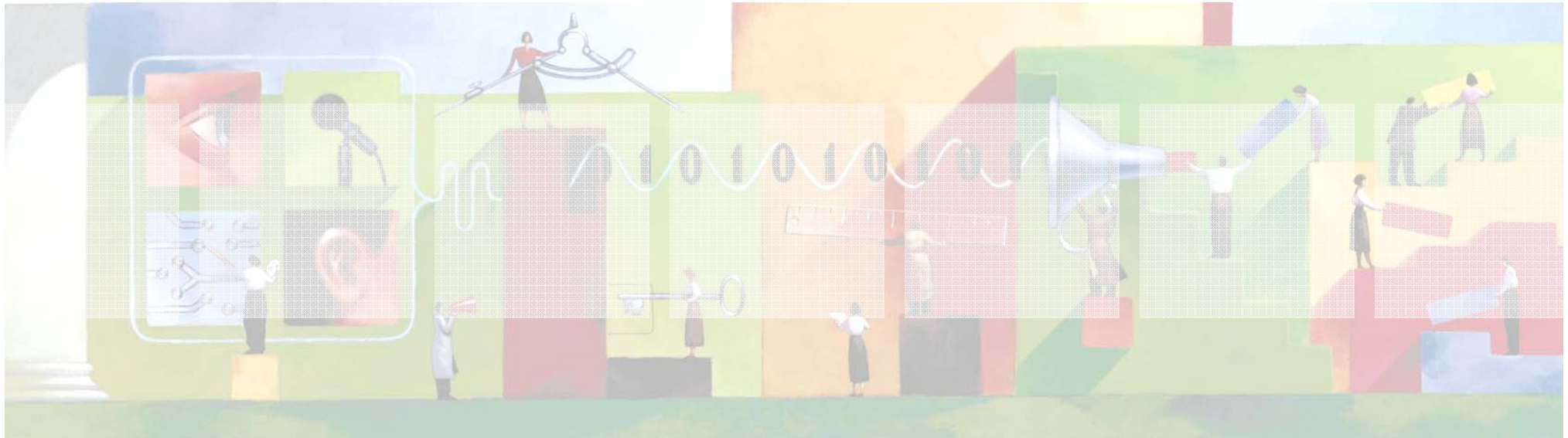


## Employer Perspectives/Concerns

### What are the priorities for change?

- The top priority for change is to be competitive in the market--pay for performance is the second priority.
- Eliminating compression and offering greater flexibility in compensation ranges and plans were among other priorities.
- All agreed that significant changes in civil service hiring are needed – specific changes suggested included allowing hiring from the top ten applicants, more frequent purging of registers, and use of interviewer feedback to adjust applicants' positions on the register or to remove inappropriate applicants from the register.
- At the conclusion of the executive/stakeholder interviews, participants were asked to rank their priorities for expenditure of any new dollars among several alternatives. Their priorities were:
  - Pay increases tied to achieving market parity was most often ranked first (40%); 60% ranked it first or second
  - Varying base pay increases for individual performance was most often ranked second (26%), 40% ranked it first or second
  - Bonuses or incentives tied to individual performance was most often ranked third (18%) or fourth (15%).

Category	% Ranking #1	% Ranking #2	% Ranking #3	% Ranking #4	% Ranking #5	% Ranking #6	% Ranking #7	% Ranking #8	Did not Rank
Equal across-the-board base pay increases for all State employees	14%	14%	12%	6%	8%	6%	18%	5%	17%
Across-the-board base pay increases tied to market parity	40%	20%	9%	6%	3%	6%	5%	0%	11%
Varying amounts of base pay increases tied to individual employee performance	14%	26%	17%	11%	8%	6%	5%	3%	11%
Bonus/incentives tied to individual performance	12%	15%	18%	15%	8%	12%	3%	0%	15%
Bonus/incentives tied to team/division/department performance	11%	8%	8%	15%	11%	14%	17%	0%	17%
Base pay increases awarded upon attainment of specialized competencies such as achievement of specific certifications (i.e. CPA, CCNA, PE, etc.)	6%	5%	11%	14%	25%	8%	11%	0%	22%
Base pay increases awarded upon certification in specialized areas	3%	5%	15%	9%	18%	20%	6%	3%	20%
A combination of any of the above	11%	2%	0%	5%	0%	3%	3%	3%	74%



## Employee Perspectives/Concerns TSEA Focus Group Input



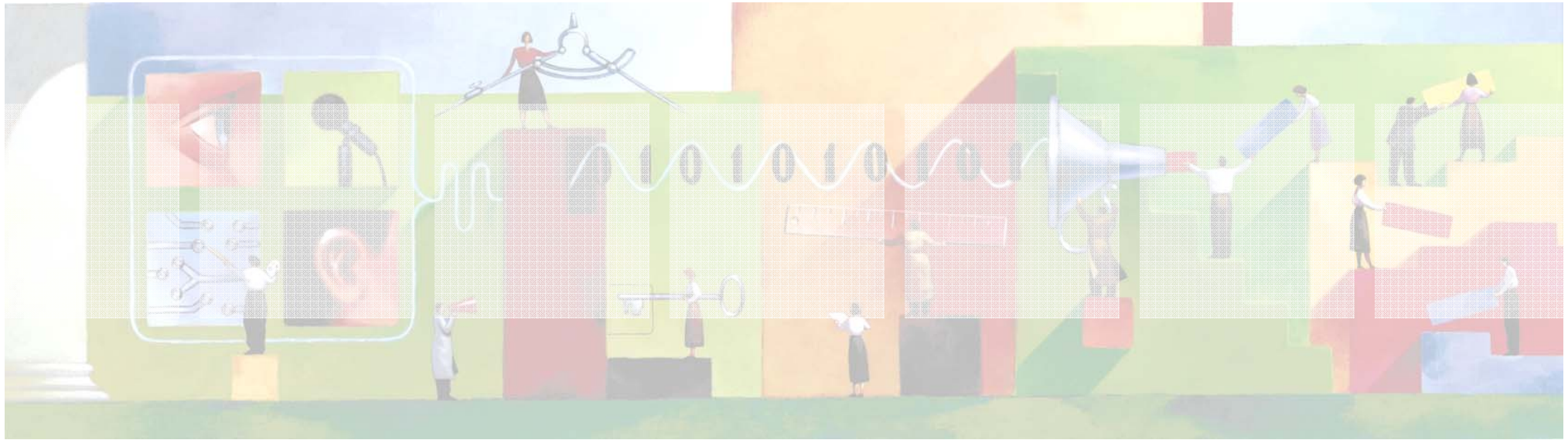
## Employee Perspectives/Concerns TSEA Focus Group Input

- Mercer also met with TSEA in the focus group sessions; TSEA expressed a variety of concerns and perceptions about the State of Tennessee's employee pay and the project including the following:
  - In the group's view, the focus of the project needs to be employee pay, particularly how employees are moving through the range based on experience; recommendations need to result in identified individual changes or actions
  - The group believes a review of job classifications needs to be performed to ensure consistency and currency in how people and positions are classified
  - In the group's experience, key talent issues experienced by the State include a variety of training issues including lack of management training skills in some organizations and lack of online or evening training for employees to get their master's degrees or to improve their skills
  - Other talent issues perceived by the group include agencies losing employees to retirement and not having qualified people to replace them
  - Pay issues mentioned by the group include:
    - ▶ Perceived general lack of competitive salaries in certain agencies – perceptions that the State of Tennessee's pay is low or the lowest in the Southeast
    - ▶ Perceptions that employees with the same educational credentials as current employees with less or no experience are coming in at higher salaries
    - ▶ Perceived lack of movement or path through the pay range – employees can't plan on or foresee their pattern of increases so they look elsewhere for the desired salary; step plans were mentioned as a possible alternative or solution



## Employee Perspectives/Concerns TSEA Focus Group Input

- Specific classification issues mentioned include:
  - Lack of current/updated titles and job classes for IT jobs
  - Concerns about people “working out of class”
- Benefit issues mentioned include:
  - Perceptions that retirement plan payouts are low or the lowest of the southeastern states



## Employee Perspectives/Concerns Survey Highlights



## Employee Perspectives/Concerns Survey Background

- The purpose of the survey was to gain insight into the employee perspective on pay and rewards across key segments.
- The survey consisted of 18 closed-ended, 2 allocation and 5 identifying background questions.
- The survey was administered online or in paper format to all employees.
- The administration window ran from March 19 through March 28, 2007 (paper surveys were accepted through April 2).
- Employees were asked to enter an access code:
  - **NONEXEC**: employees in budget codes 301-309 which included the Legislature, Fiscal Review, Supreme Court, Attorney General, District Attorney General, Secretary of State, Public Defender and Comptroller or Treasury
  - **EXEC**: all other employees (Executive Branch).
- The survey was completed by 12,636 employees:
  - Non-Executive Branches: 1,600 employees (13% of the total participation)
  - Executive Branch: 11,036 (87% of the total participation).



## Employee Perspectives/Concerns Opinion Survey Top Line Results

- Normative Comparison: Executive Branch employee results are significantly more favorable on 6 of the 20 normative survey items (30%) and significantly less favorable on 14 of the 20 normative survey items (70%).
- Compared to the norm, Executive Branch employees:
  - Believe their pay is worse than the pay offered by other organizations in both their geographic area (-36%) and industry (-32%)
  - Believe their benefits are as good as or better than those offered by other organizations in the public sector (+11%) , but are slightly less satisfied with the communication efforts surrounding benefits (-4%).
- **Pay and Benefits:** Executive Branch responses reflect relatively low scores except on benefits:
  - 67% of employees feel that their benefits are as good as or better than those offered by other organizations in the public sector; compared to 68% for the overall State sample and 56% for the Mercer norm
  - Roughly half (49%) of employees understand how their pay is determined; (identical to the overall State sample at 49%) and compared to 78% for the Mercer norm
  - 36% of employees feel their manager provides them with clear information about decisions affecting their pay; compared to 37% for the overall State sample and 44% for the Mercer norm
  - Only one-third (28%) of employees feel they are paid fairly compared to other employees in similar jobs at the State; identical to the overall State sample at 28% and 52% for the Mercer norm
  - Less than one-fifth of employees believe their pay is as good or better than the pay offered by other organizations in their geographic area (17%) or their industry (14%); findings are below the Mercer norm at (-36%) and (-32%) respectively.

\* Results are compared to Mercer's norm, comprising data from over 10,000 employees in 800 public and private organizations from across the U.S.



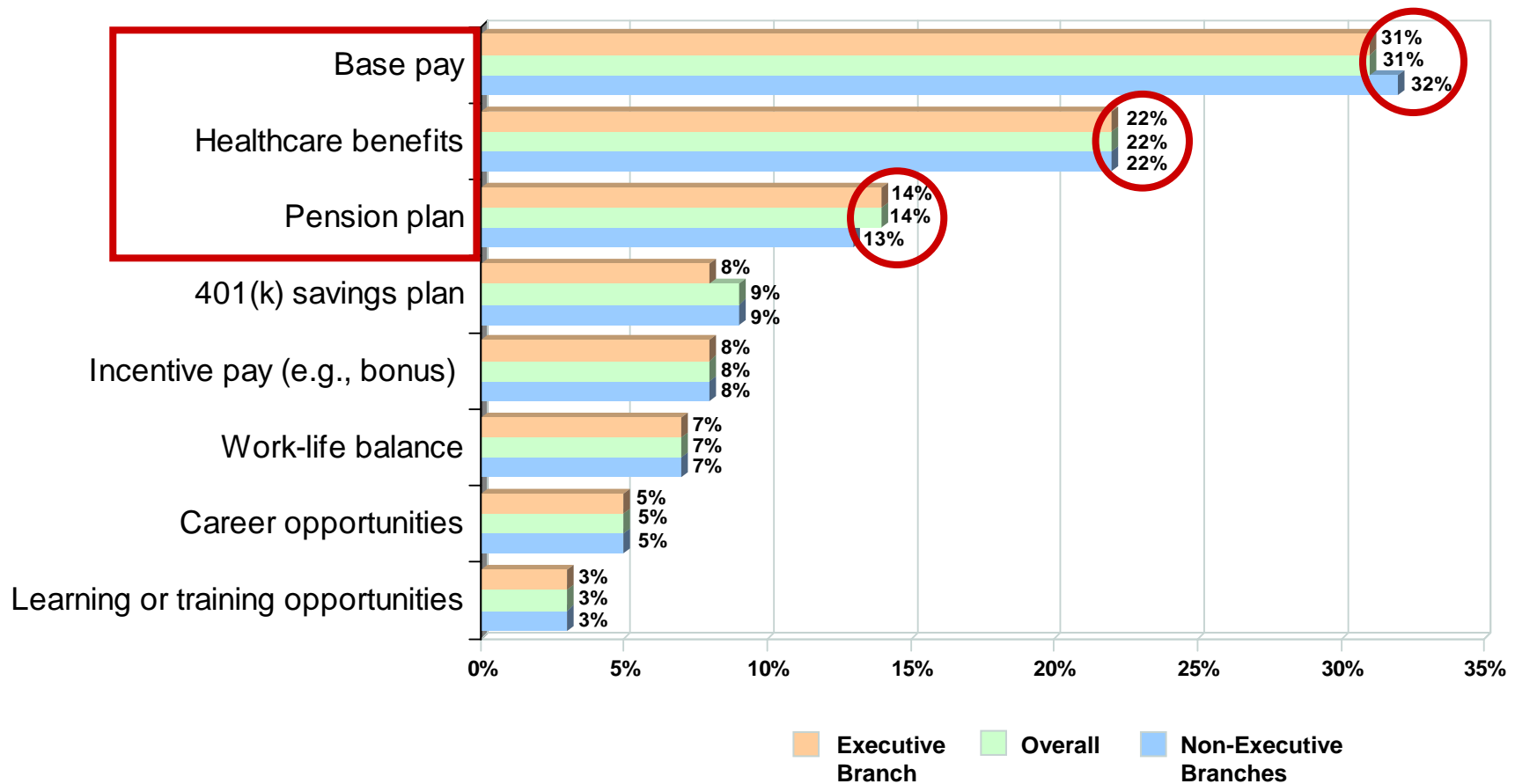
## Employee Perspectives/Concerns Opinion Survey Top Line Results

- **Commitment and Engagement:** Executive Branch employees report a high level of commitment and engagement:
  - The most favorable survey item is employees' willingness to go "above and beyond" to help the State succeed (88%) – norm (75%)
  - The second most favorable item is about employees' sense of pride to work for the State (78%) – norm (71%)
  - 69% of Executive Branch employees feel they are able to maintain a healthy balance between work and personal life – norm (65%)
  - Nearly two-thirds (65%) of Executive Branch employees are not seriously considering leaving the State – norm (57%)
  - 60% of Executive Branch employees would recommend the State to friends as a good place to work – norm (65%)
- **Performance and Career Development:**
  - Most Executive Branch employees understand how their performance is evaluated (70%), but a large number do not believe they have sufficient opportunities for growth and development (42%) – norm (64%) and (49%)
  - 43% of Executive Branch employees believe they are provided with the information/assistance required to manage their career – norm (52%)
  - 39% of Executive Branch employees are confident they will be able to achieve their long-term career objectives at the State – norm (52%)
  - A quarter of the Executive Branch employees feel the State of Tennessee is doing a good job of developing their full potential while only 16% feel the State is doing a good job of retaining its most talented people – norm (39%) and (37%)
  - Only 23% of Executive Branch employees feel that they are paid fairly given their performance and contribution to the State – norm (53%)
  - Only 21% of Executive Branch employees feel promotions are generally given to the most qualified employees at the State – norm (29%)



## Employee Perspectives/Concerns Opinion Survey Top Line Results

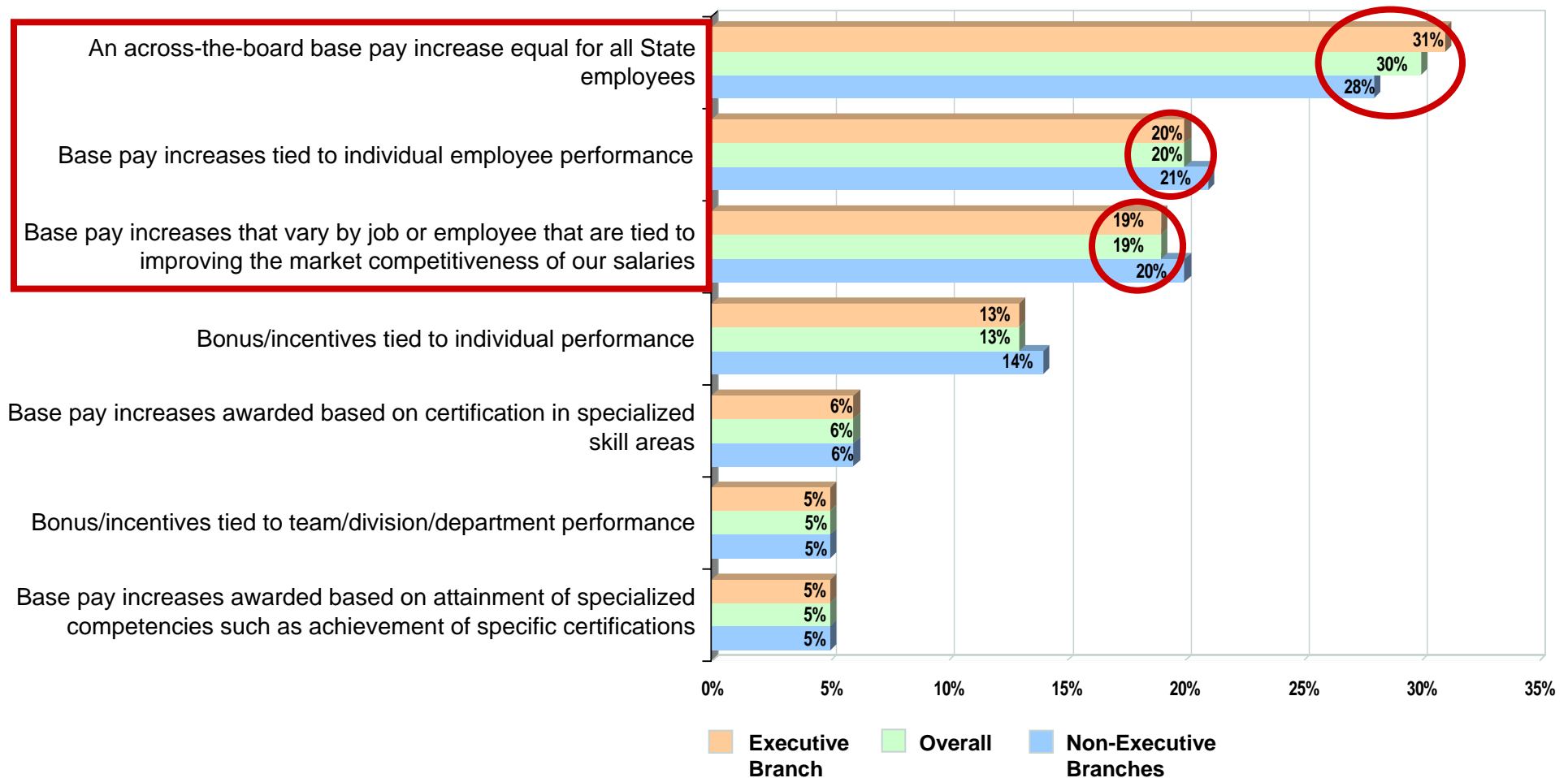
- Base pay, healthcare benefits and pension plan are cited as the current and potential pay elements and benefits Executive Branch employees value the most





## Employee Perspectives/Concerns Opinion Survey Top Line Results

- An across-the-board increase to all employees, increases tied to individual performance and increases that are tied to market competitiveness are cited as the most important types of pay alternatives





## Employee Perspectives/Concerns Differences Among Key Segments

- **Age:** Employees 30 years or younger are significantly more favorable on items such as opportunities for future career growth, retaining key talent, and competitive pay in industry and geography, while employees 41-60 years of age are significantly less favorable. Employees 60 years or older are generally significantly more favorable across most items.
- **Gender:** Male employees feel they are paid fairly given their performance/contributions and compared to employees in similar roles, but are significantly less favorable on how they feel about their pay compared to similar jobs in the industry and geographic area; females tend to be more favorable on most items especially with employee engagement and commitment to the State of Tennessee.
- **Tenure:** Employees with less than 2 years of service are significantly more favorable on a number of items; favorability declines slightly with increasing tenure, especially in the 10 to 20 years of service groups.
- **Job Type:** Favorable scores are generally positive across job types; however, non-supervisory employees provide significantly lower ratings across most items, except that they are more positive on being paid competitively compared to other organizations in their industry and geographic area.
- **Function:** Results vary across the 18 functions. The most favorable groups include Human Resource, Executive Management and Other Support Services which are more significantly favorable across most items; the functions with the lowest favorable scores include Legal, Commissioned Law Enforcement and Other Professional Specialized Services.



## Employee Perspectives/Concerns Top 10 Overall Favorable Items

	% Favorable Executive Branch (11036)	% Favorable Non-Executive Branches (1600)	% Difference between Executive Branch and Norm
16. I am willing to go "above and beyond" to help the State of TN succeed.	88	88	+13
15. I am proud to work for the State of TN.	78	79	+7
7. The State of TN has done a good job of communicating information about our benefits.	71	77	-4
5. I understand how my performance is evaluated.	70	70	+6
4. At the State of TN, I am able to maintain a healthy balance between my work and my personal life.	69	77	+4
12. I believe the benefits at the State of TN are as good as or better than those offered by other organizations in the public sector.	67	72	+11
18. At the present time, I am not seriously considering leaving the State of TN.	65	63	+8
17. I would recommend the State of TN to friends as a good place to work.	60	66	-5
6. I understand how my pay is determined.	49	51	-29
13. I am provided with the information and assistance I require to manage my career.	43	46	-9



Executive Branch score is greater and statistically significant



Executive Branch score is lower and statistically significant



## Employee Perspectives/Concerns Bottom 10 Overall Favorable Items

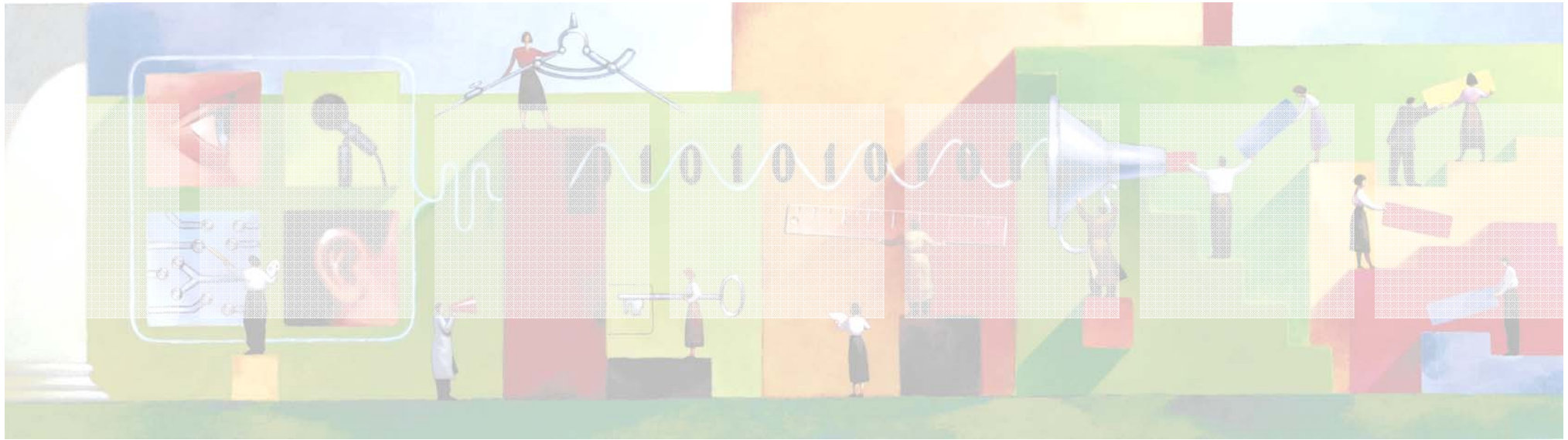
	% Favorable Executive Branch (11036)	% Favorable Non-Executive Branches (1600)	% Difference between Executive Branch and Norm
1. I believe I have sufficient opportunities for growth and development at the State of TN.	42	43	-7
14. Overall, I am confident that I will be able to achieve my long-term career objectives at the State of TN.	39	40	-13
11. My manager is able to provide me with clear information about decisions affecting my pay.	36	39	-8
9. I feel I am paid fairly compared to other people performing similar jobs at the State of TN.	28	32	-24
3a. The State of TN is doing a good job of developing its people to their full potential.	25	27	-14
8. I am paid fairly given my performance and contributions to the State of TN.	23	28	-30
2. Promotions are generally given to the most qualified employees at the State of TN.	21	24	-8
10a. I believe the pay at the State of TN is as good as or better than the pay offered by other organizations in our geographic area.	17	20	-36
3b. The State of TN is doing a good job of retaining its most talented people.	16	17	-21
10b. I believe the pay at the State of TN is as good as or better than the pay offered by other organizations in our industry.	14	16	-32



Executive Branch score is greater and statistically significant



Executive Branch score is lower and statistically significant



## Comprehensive Pay Plan Review Cash Compensation Market Analysis



## Cash Compensation Market Analysis Methodology

- Market data was compiled to assess the competitive position of compensation and benefits; while the focus was compensation, in line with best practices, compensation was assessed in the context of total remuneration.
- Peer groups were developed to represent a group of Tennessee “talent” competitors:
  - The peers for benefit comparison have large concentrations of employees in the State, and are from industries with significant competitive presence – health care, manufacturing, education, retail, distribution, Federal government – often with state-wide geographic dispersion
  - The cash compensation peer groups are more diverse and represent a broader cross-section of predominantly mid-size to large employers.
- A cross-section of 120 benchmark jobs from multiple job families and levels was identified for market pricing (representing a sample of major occupational groups and departments, and job levels, with a focus on the jobs encompassing the largest numbers of employees, as well as on those jobs which are most a concern from an attraction and retention perspective).
- The benchmark jobs provide good coverage of the State’ jobs, covering approximately 41% of the full time work force; jobs selected track the total population in terms of length of service.
- In matching the jobs, comparisons were based on job content and requirements—not on job titles or incumbent-related factors; the competitive review does not take into account specific incumbents’ credentials or performance.



## Cash Compensation Market Analysis Methodology

- Data was collected for base pay and total cash at the 25th, 50th, and 75th percentiles, where available.
- The process followed conforms to accepted compensation benchmarking practices.
- Data for jobs eligible for overtime or compensatory time were priced using hourly data, or based on a 37.5 hour week, except for those normally assigned to work a 40 hour week.
- The market data reflects the State's typical recruiting markets:
  - Local/state data for jobs recruited within the state (all but the top executive jobs, which were priced using a mix of local, regional and some national data)
    - Some regional data used to supplement the national data, and adjusted to reflect Tennessee pay differentials
    - Jobs unique to state governments may include data for the southeastern states
  - General industry data for jobs recruited in the general market, but with some government/not for profit data included where available
  - Government and not for profit data used for directors and above with some general industry data; executives were priced primarily using government and not for profit data.
- Over 20 survey sources were used (listing provided on next page); all survey data has been time adjusted to a common date of July 1, 2007, following standard practice.



## Cash Compensation Market Analysis Survey Sources

Survey	Survey
<ul style="list-style-type: none"> <li>■ America's Community Bankers: Compensation and Benefits Survey</li> <li>■ Bank Administration Institute: Bank Cash Compensation Survey</li> <li>■ Business and Legal Reports (BLR): Survey of Nonexempt Compensation</li> <li>■ Business and Legal Reports (BLR): Survey of Exempt Compensation</li> <li>■ Dietrich Support Services: Engineering Salary Survey</li> <li>■ Dietrich Support Services: 2006 Science and Lab Survey</li> <li>■ Dolan Technologies: Compdata Salary Survey</li> <li>■ Effective Compensation, Inc: 2005 Environmental Industry Compensation Survey</li> <li>■ Mercer Benchmark Database include the following: <ul style="list-style-type: none"> <li>— E-commerce</li> <li>— Executive</li> <li>— Finance, Accounting, and Legal</li> <li>— Human Resources</li> <li>— Information Technology</li> <li>— Logistics and Supply Chain</li> <li>— Marketing and Communications</li> <li>— Metropolitan Benchmark</li> </ul> </li> <li>■ Metropolitan Nashville: Salary Schedule</li> </ul>	<ul style="list-style-type: none"> <li>■ Mercer: Integrated Health Networks (IHN) Compensation Survey</li> <li>■ Southeastern States: Salary Survey</li> <li>■ State of Tennessee-University of Tennessee: State of Tennessee Salary Survey</li> <li>■ Sullivan Cotter: Management and Executive Healthcare Survey</li> <li>■ Tennessee Hospital Association: Compensation Survey</li> <li>■ Watson Wyatt Data Services include the following: <ul style="list-style-type: none"> <li>— Office Personnel</li> <li>— Top Management</li> <li>— Financial Institutions</li> <li>— Hospital and Health Care Management</li> <li>— Supervisory Management</li> <li>— Middle Management</li> <li>— Professional Administrative Services</li> <li>— Professional Specialized Services</li> <li>— Technician &amp; Skilled Trades</li> </ul> </li> </ul>



## Cash Compensation Market Analysis State of Tennessee Survey Definitions

What does it mean to pay competitively?	Company	The standard competitive position is market median	
<ul style="list-style-type: none"><li>The standard answer is to pay at the median.</li><li>What is market median or competitive pay for a job? The “middle” of the market... for example, if we survey what 10 employers pay an entry level engineer, and array each company’s average pay from high to low...</li><li>Note that most surveys report the median of actual incumbent’s pay rates, so this example is simplified.</li></ul>	A	\$60,000	
	B	\$58,000	
	C	\$55,000	← 75 <sup>th</sup> percentile = \$55,000
	D	\$50,000	
	E	\$43,000	
		\$40,000	← Median = \$40,000
	F	\$37,000	
	G	\$36,000	
	H	\$35,000	← 25 <sup>th</sup> Percentile = \$35,000
	I	\$34,000	
	J	\$32,000	



## Cash Compensation Market Analysis Market Competitiveness Overview

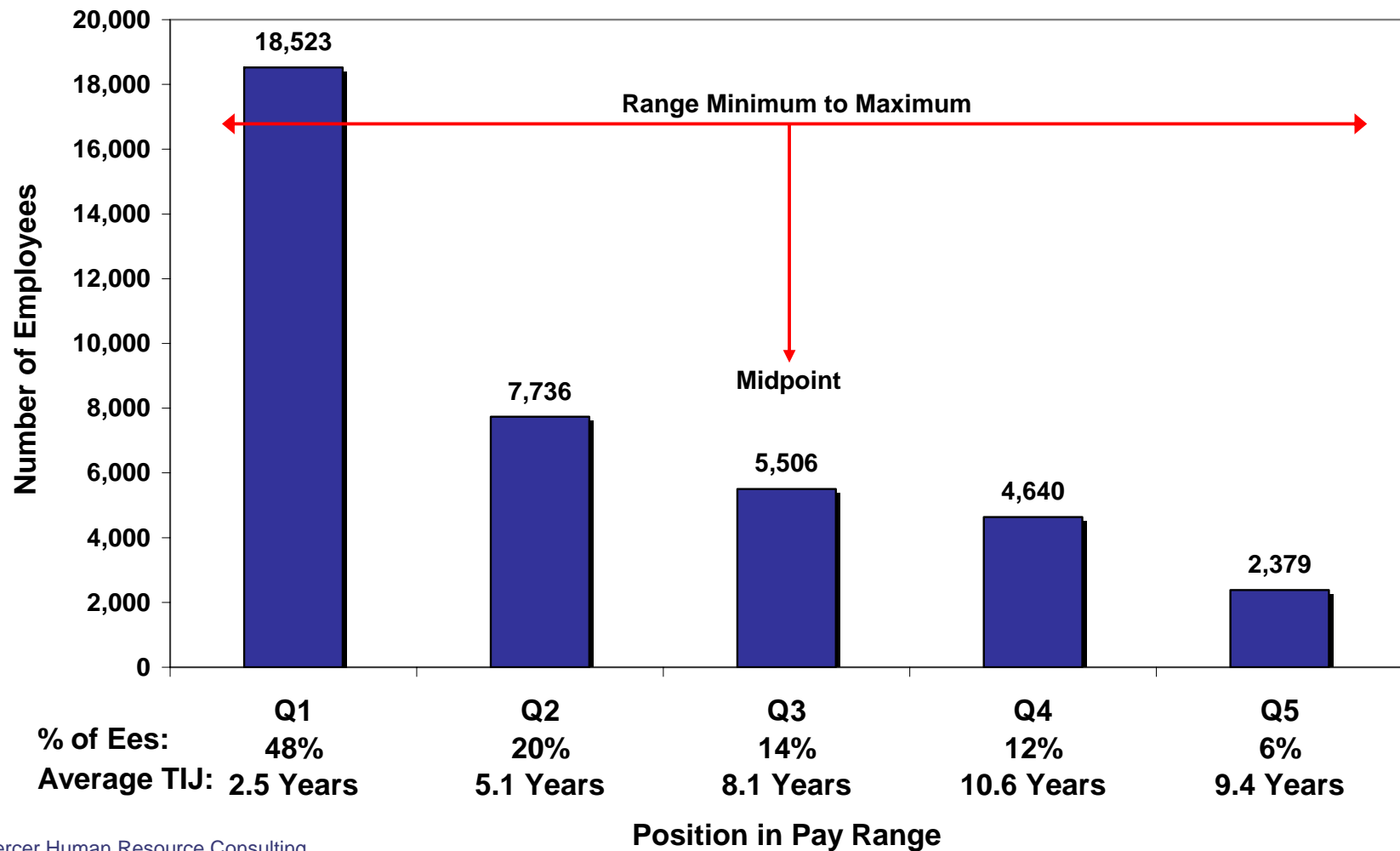
- The competitive market data represents market cash compensation levels for employees in comparable jobs—on average the median of the market data is viewed as the competitive market rate, and is interpreted as reflecting the pay levels of fully experienced and satisfactorily performing employees in the job and career level.
- The State's pay plan was analyzed for competitiveness in three ways:
  - Actual base salaries were compared to the market median base pay
  - Actual state total cash compensation (base pay plus any incentives, including longevity bonuses) was compared to the market median total cash compensation (base pay plus incentives)
  - Current pay grade midpoints were compared to the market median base pay.



## Cash Compensation Market Analysis Results

- State of Tennessee's employees are clustered in the low end of the range, which appears to be generally aligned with experience.

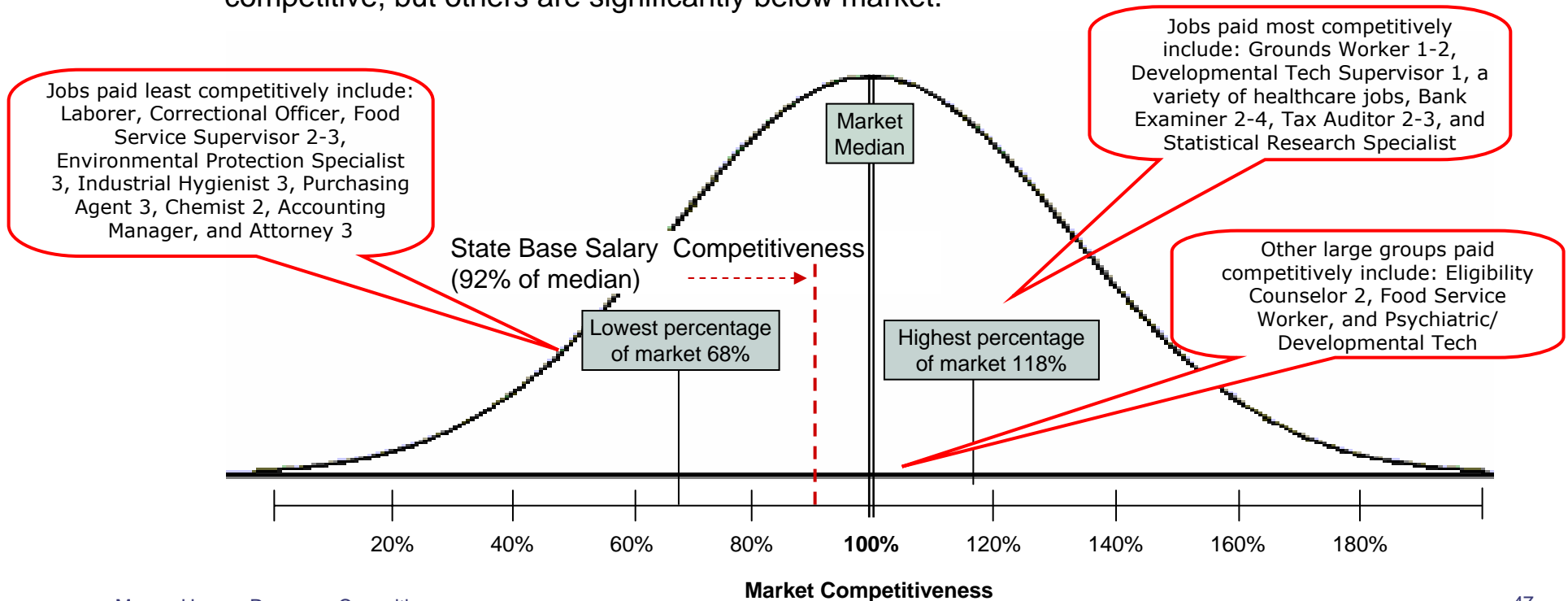
**State Employees in Each Quintile of Pay Range**  
**Grades 5-43 and Grade 900 IT Jobs (Approximately 38,800 Employees)**





## Cash Compensation Market Analysis Results Base Pay Competitiveness

- Mercer benchmarked compensation for a sample of 120 jobs covering approximately 41% of the State's full-time workforce.
- Based on the sample, actual average State of Tennessee employee base salary for the benchmark jobs is 92% of market median.
  - However, on average, director level positions are paid significantly less competitively at 84% of median, or 16% below
  - And, jobs vary widely in competitiveness, from 68% and 118% of median – some jobs are very competitive, but others are significantly below market.



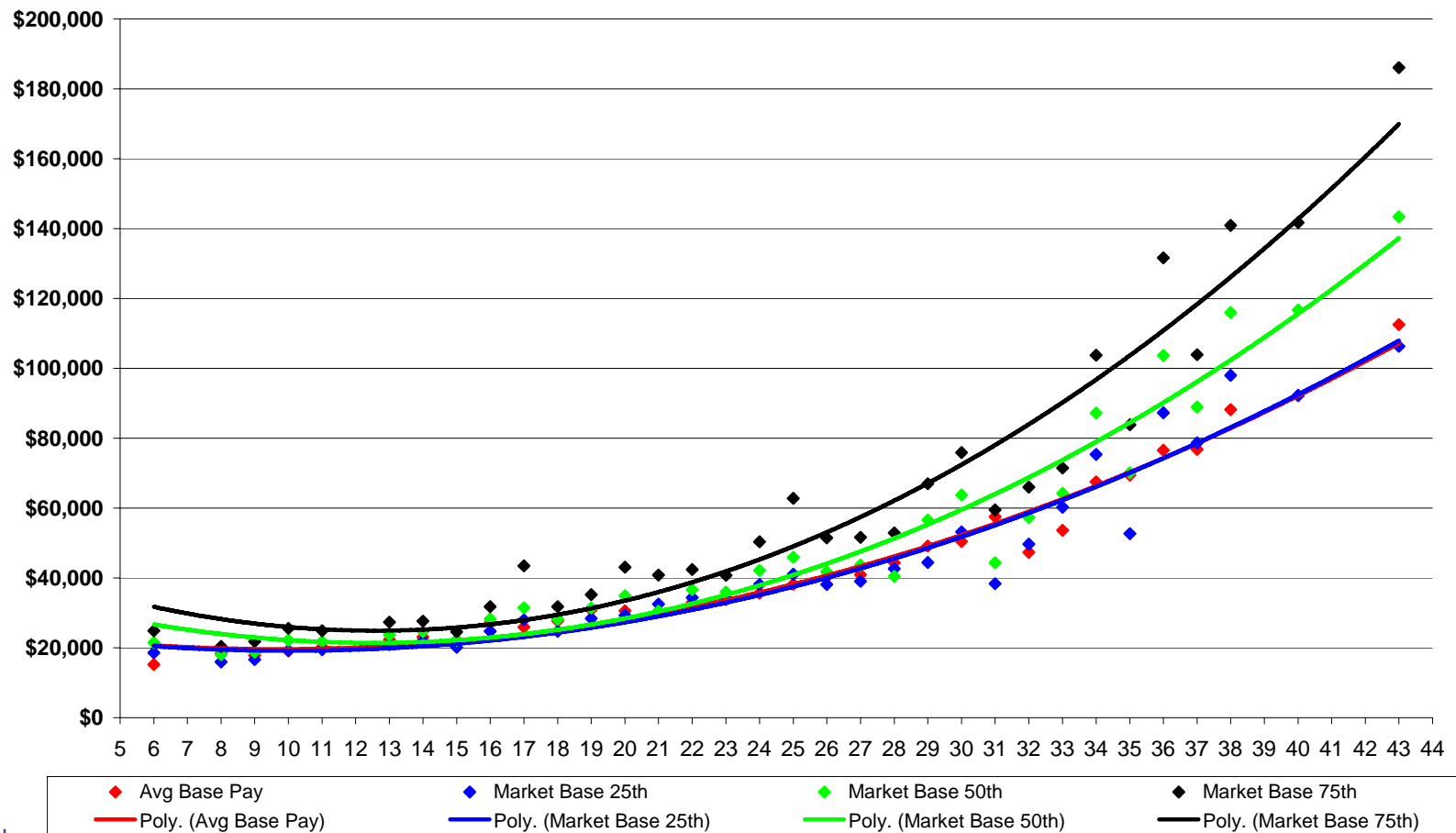


## Cash Compensation Market Analysis Results

### Base Pay Competitiveness

- Average base pay per job tracks the 25th percentile across most of the grades (not taking into account the varying size of the job classes).

**State Versus Market Median**  
Average Base Pay



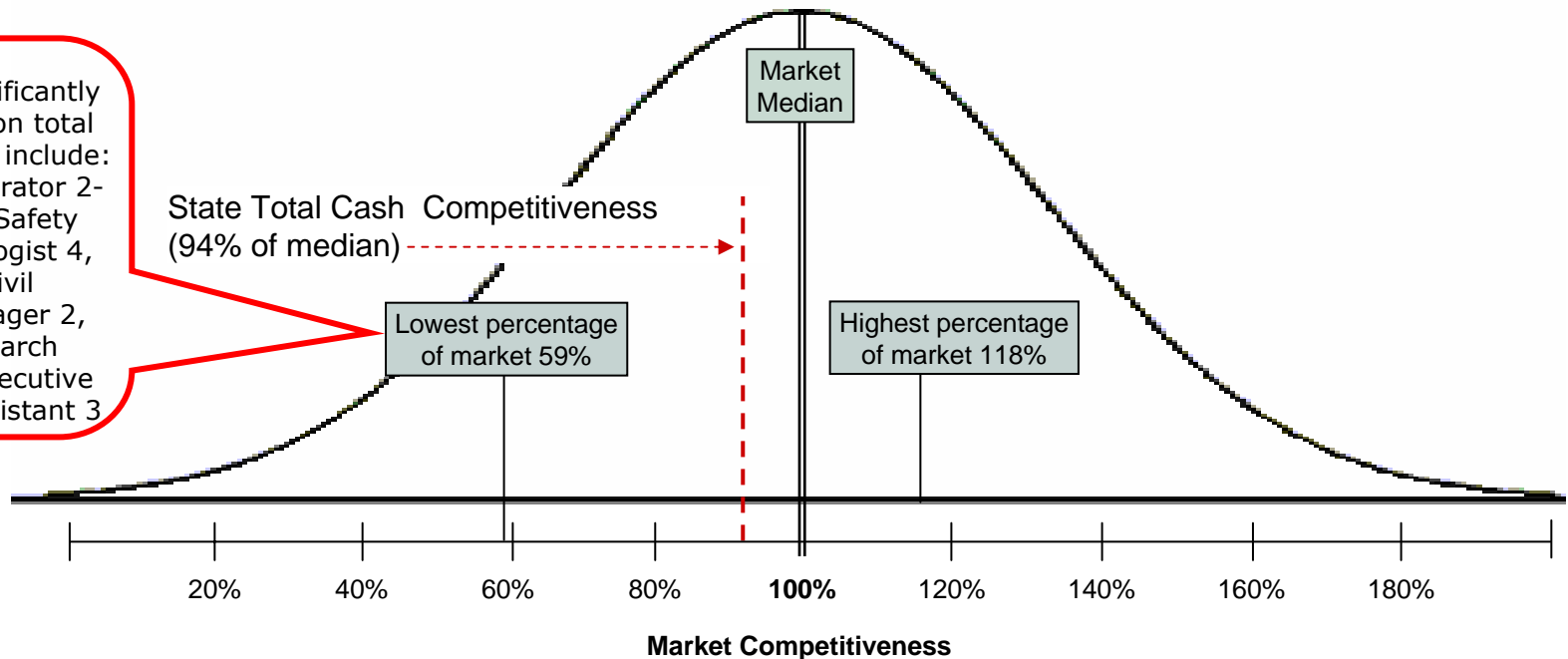


## Cash Compensation Market Analysis Results

### Total Cash Competitiveness

- Based on the benchmark sample, State employees' total cash (including the longevity bonus) compared to market total cash (base pay plus incentives) is more competitive than base pay at 94% of median – the longevity bonus improves competitiveness for the general population.
  - The State's longevity bonuses run 3.2% of base pay on average, and 4% of base for those who receive them.
  - However, total cash (base pay plus longevity bonus) is 3 percentage points less competitive than base pay alone (at 81%) for Directors, as they are typically eligible for performance based incentives with larger potential payouts in the external market.
  - And again, competitiveness varies widely with some jobs very competitive, but others significantly be

Example jobs significantly **less** competitive on total cash than on base include: Database Administrator 2-3, Occupational Safety Specialist 3, Geologist 4, Biologist 3, Civil Engineering Manager 2, Statistical Research Specialist, and Executive Administrative Assistant 3

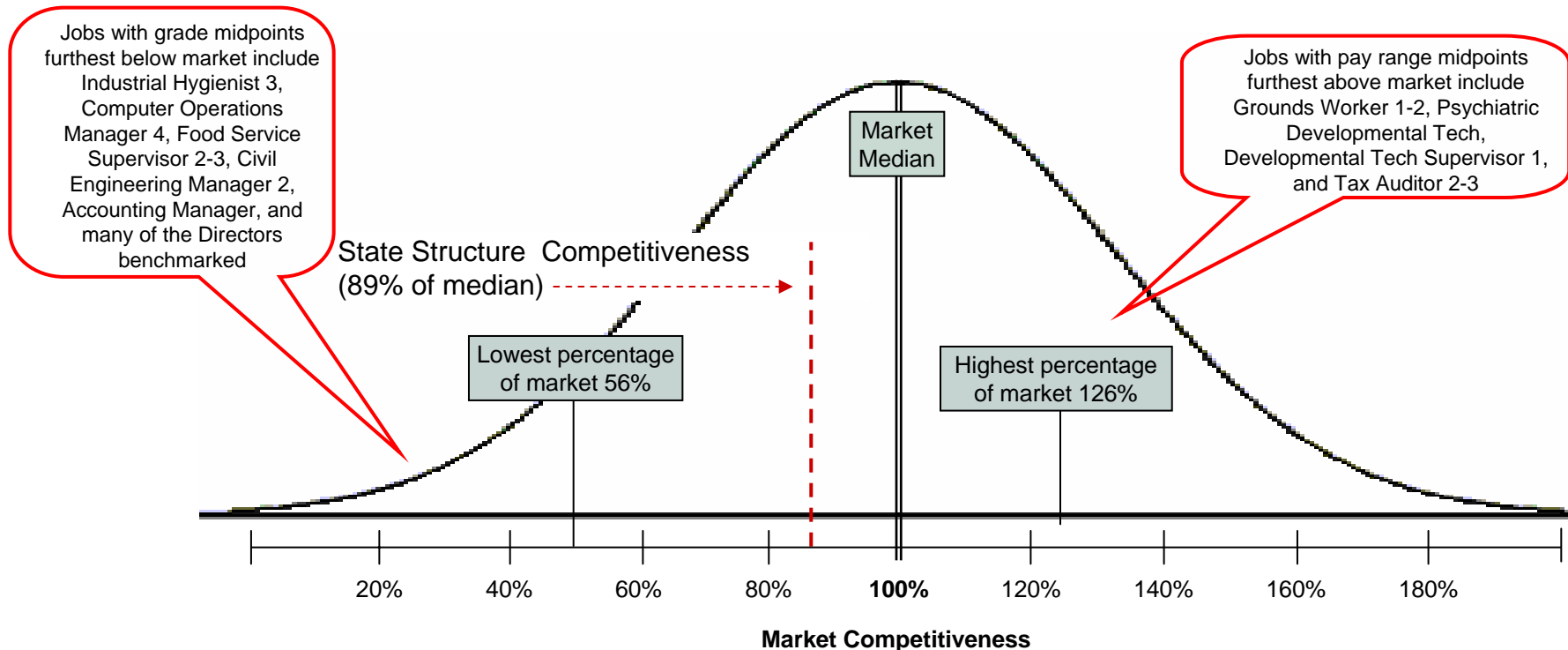




## Cash Compensation Market Analysis Results

### Pay Structure Competitiveness

- Pay range midpoints are intended to align with market median base pay market values. Based on the benchmark sample, the structure is 89% of market median overall, but the overall statistic is somewhat misleading:
  - The range midpoints for the lower/middle part of the structure (grades 10-25) are more competitive than the top – the Director ranges average 73% of median or 27% below median
  - Competitiveness for the benchmark jobs varies widely from 56% to 126% of median – only 71% of jobs are within one to two grades (+/-15%) of where they should be based on market median.

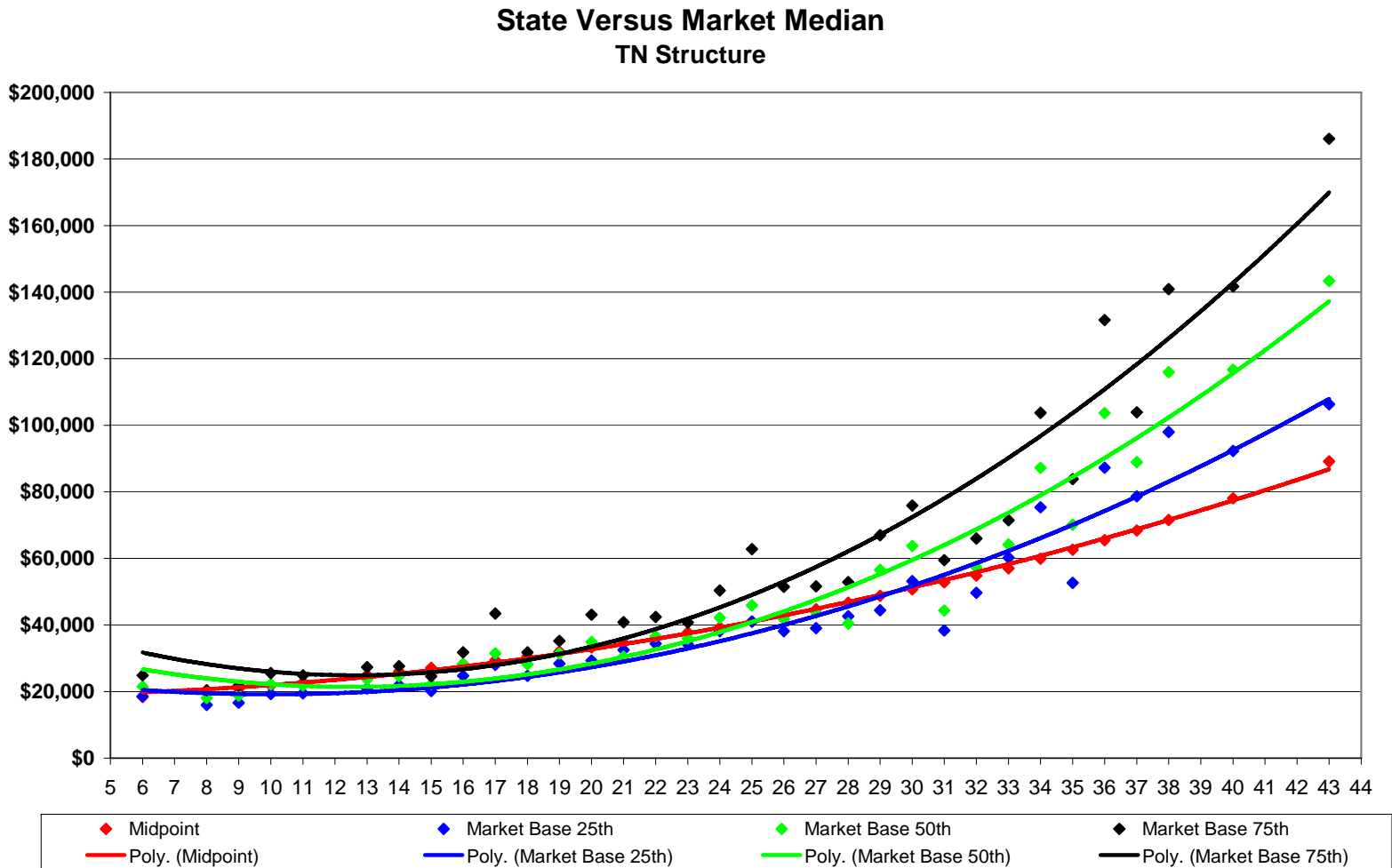


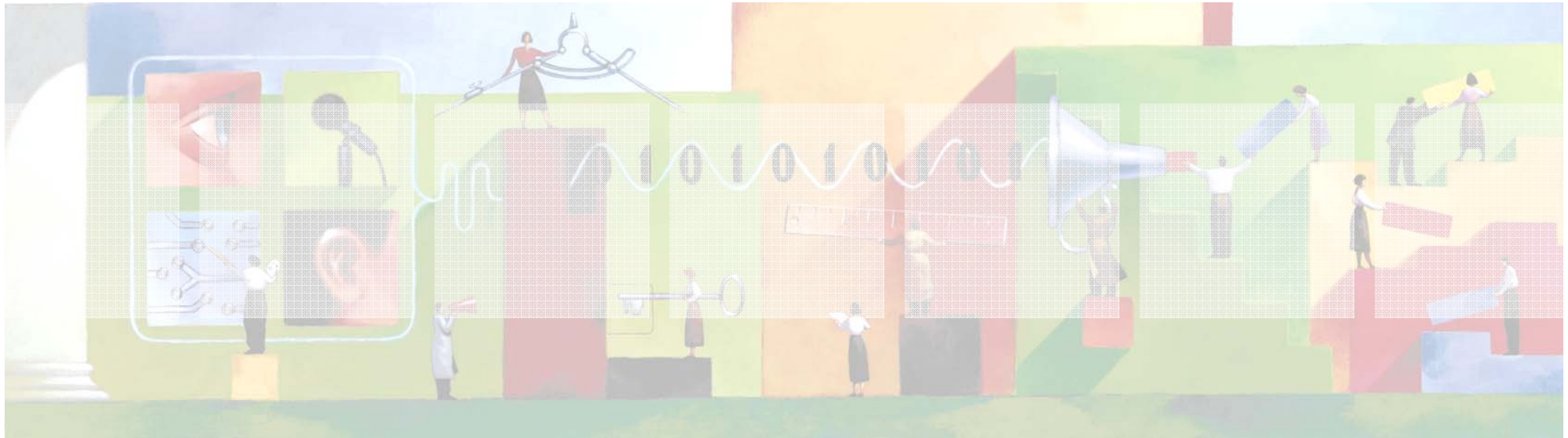


## Cash Compensation Market Analysis Results

### Pay Structure Competitiveness

- Midpoints vary in competitiveness below grade 26, but average below the 25th percentile for grades 30 and up





# Comprehensive Pay Plan Review Pay Structure and Policy Review



## Pay Structure Review and Policy

### Current Structure

- The State's standard pay structure consists of 39 ranges (5-41)—ranges are open ranges.
- There is a separate pay plan for IT positions with basically separate ranges for each job, and a group of "hot jobs" for which no ranges are established.
- In the standard structure, midpoint to midpoint increments range from 4%-5%.
- Range widths are 64% for grade 005 and 62% for grade 006; the remaining ranges are 60% wide from minimum to maximum.
- Jobs are assigned to grades based on market and to some extent internal equity.
- The structure is updated annually by the same amount as the increase budget, consequently employees do not progress through the range in a very predictable way.

Glass Grade	Annual Salary Range Min	Annual Salary Range Mid	Annual Salary Range Max	Range Width	Mid-to-Mid Increment
005	13,284	17,538	21,792	64%	4%
006	13,968	18,318	22,668	62%	4%
007	14,664	19,098	23,532	60%	4%
008	15,336	19,944	24,552	60%	5%
009	16,044	20,856	25,668	60%	4%
010	16,752	21,774	26,796	60%	5%
011	17,532	22,788	28,044	60%	5%
012	18,348	23,844	29,340	60%	5%
013	19,200	24,960	30,720	60%	4%
014	20,016	26,016	32,016	60%	4%
015	20,856	27,108	33,360	60%	4%
016	21,708	28,218	34,728	60%	4%
017	22,620	29,406	36,192	60%	4%
018	23,580	30,660	37,740	60%	4%
019	24,588	31,956	39,324	60%	4%
020	25,608	33,288	40,968	60%	4%
021	26,700	34,710	42,720	60%	4%
022	27,852	36,204	44,556	60%	4%
023	29,028	37,740	46,452	60%	4%
024	30,216	39,282	48,348	60%	4%
025	31,536	40,992	50,448	60%	4%
026	32,904	42,774	52,644	60%	4%
027	34,368	44,688	55,008	60%	4%
028	35,892	46,656	57,420	60%	5%
029	37,524	48,786	60,048	60%	4%
030	39,036	50,748	62,460	60%	4%
031	40,608	52,788	64,968	60%	4%
032	42,180	54,840	67,500	60%	4%
033	43,836	56,988	70,140	60%	5%
034	46,104	59,934	73,764	60%	5%
035	48,180	62,634	77,088	60%	5%
036	50,376	65,496	80,616	60%	4%
037	52,632	68,418	84,204	60%	5%
038	55,008	71,508	88,008	60%	5%
039	57,492	74,736	91,980	60%	4%
040	60,060	78,072	96,084	60%	4%
041	62,736	81,564	100,392	60%	5%



## Pay Structure and Policy Review Comparisons of Market Trends and Practices - Observations

- Many jobs are assigned to grades that are not aligned with the market – for example:
  - 28 benchmark jobs are one or more grades above where market values would put them
  - 36 benchmark jobs are one or more grades below where market values would put them
  - \*12 are in the grade consistent with market median
- In general, the structure has too many grades, too close together – the typical practice in the market is ranges 6-8% or more apart at the bottom of the structure and 10-20% apart at ranges with midpoints of \$50,000 and above, resulting in significantly fewer grades.
  - Fewer grades makes it more feasible to evaluate jobs consistently and limits grade changes based on small fluctuations in job value.
- The State of Tennessee structure ranges are too wide, which contributes to hiring rates that are too low, inequities between employees and new hires, and generally lower competitiveness.
- There is no formal job family and career level framework to support internal equity among job classifications.

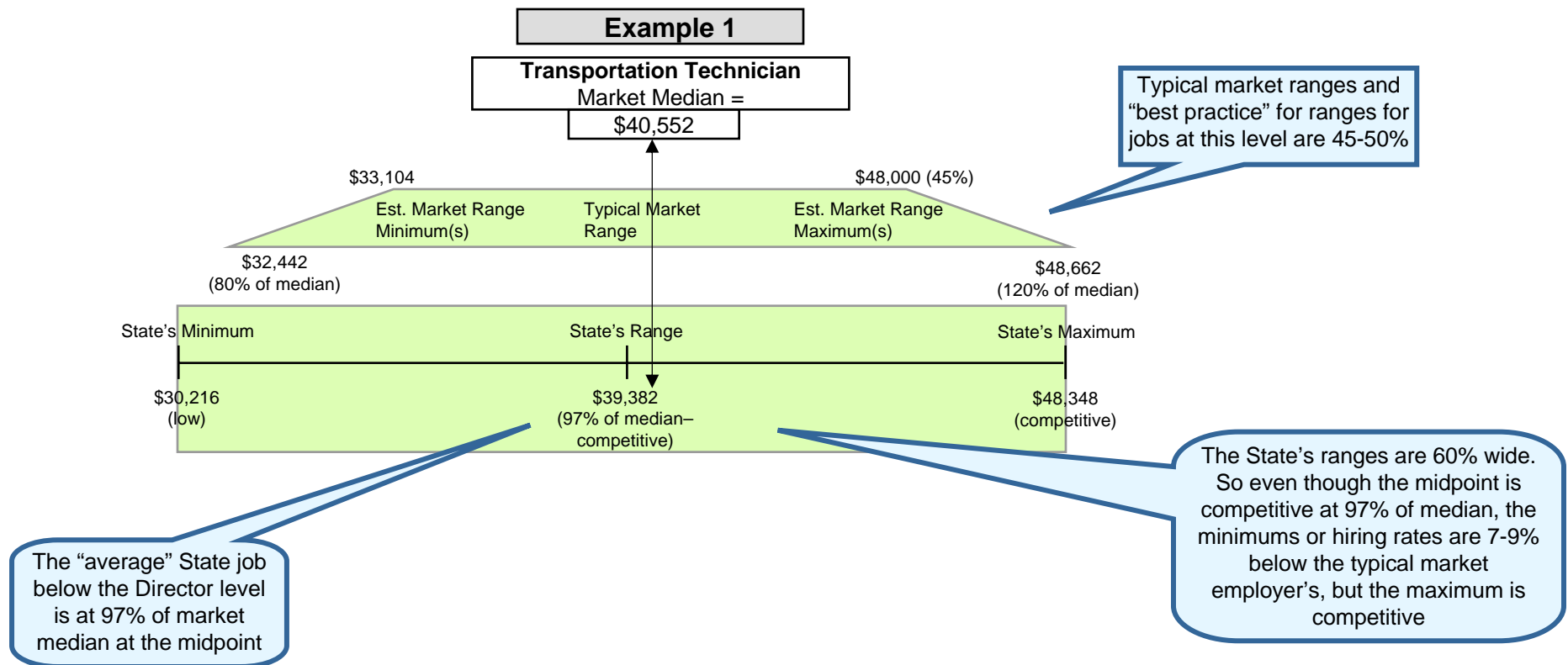
*\*The remainder of the benchmark sample involve classification or other issues that make it more difficult to assess whether they are on market or above.*



## Pay Structure and Policy Review

State of Tennessee wide ranges contribute to range minimums that are not competitive

- The structure minimums are less competitive than the structure midpoints
- The structure maximums are more competitive than the midpoints

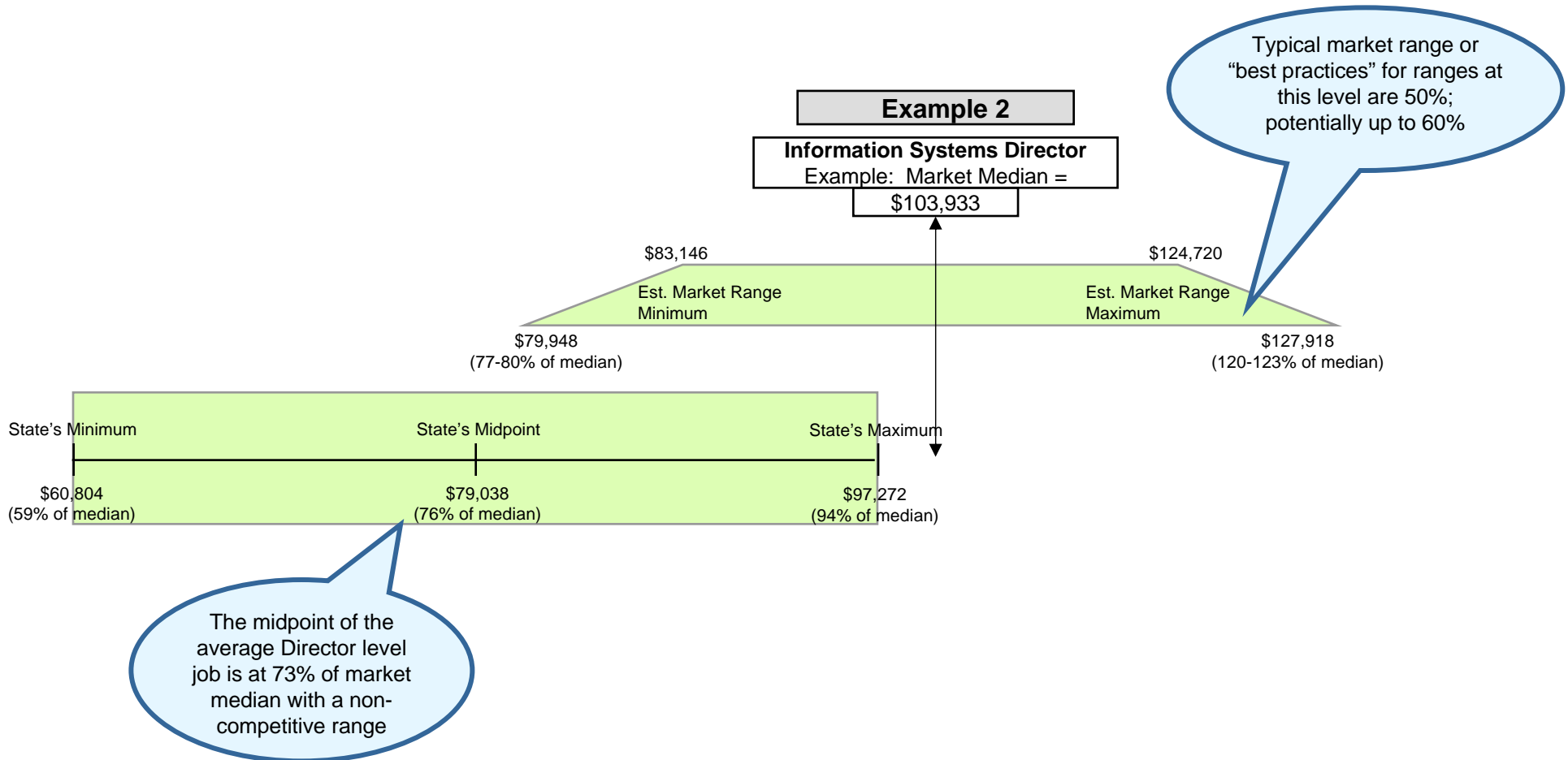


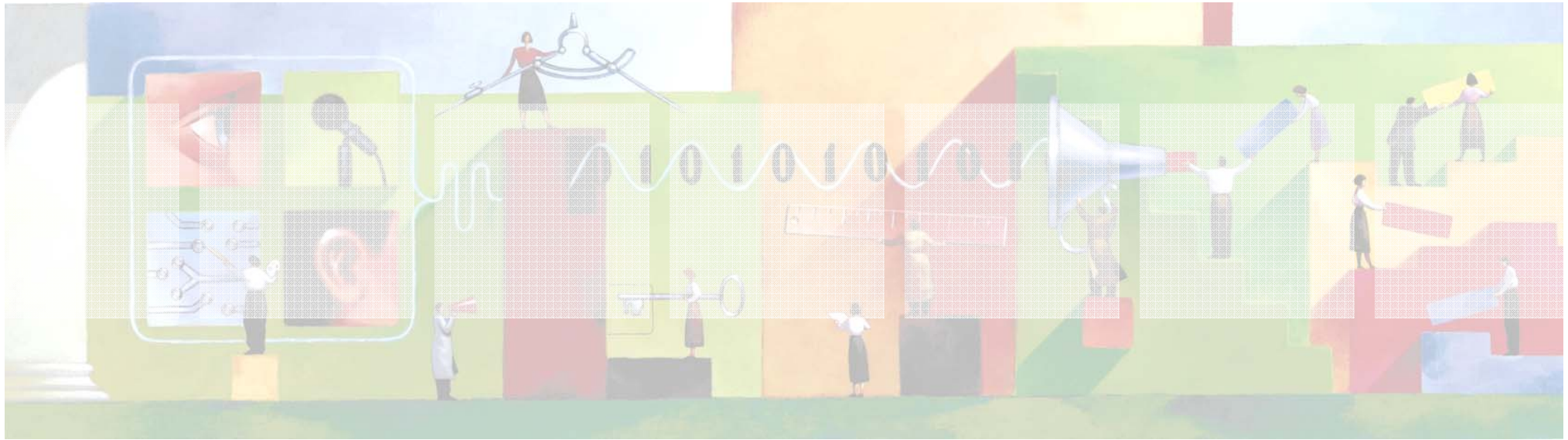


## Pay Structure and Policy Review

State of Tennessee wide ranges contribute to range minimums that are not competitive

- The structure minimums are less competitive than the structure midpoints
- The structure maximums are more competitive than the midpoints





## Recommendations for Changes to the Comprehensive Pay Plan



## Base Pay Structures and Policy Recommendations

### General Structure

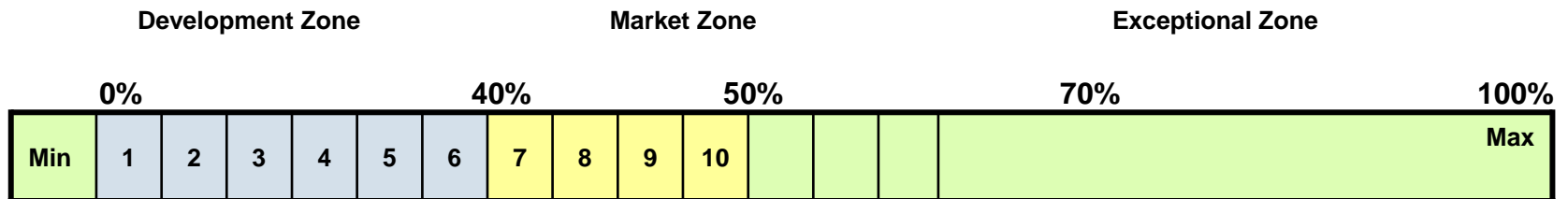
- Adopt a new traditional structure with 6%-10% progressions between salary grade midpoints, 20-25 grades, 50% widths or widths increasing from 50%-60%, and with jobs re-assigned to grades based on market, then reviewed for internal equity (subject to funding).
- Position the range midpoints at 100% of market median; validate the geographic pay variations within the state, and adopt geographic structure variations of 5% and 10% lower than the core structure for use in areas outside major cities, to reflect competitive rates in those geographies.
- Review and consolidate job titles in a job family, role, and career level framework.
- Assign benchmark jobs to the grade whose midpoint is closest to the market median, with non-benchmarks slotted using the job family framework – rationale for any slotting above median should be based on a combination of the following: well documented and significant internal equity concerns, higher than average vacancy and turnover rates, and criticality to agency or directness of impact on key agency objectives and results.
- Based on managers' views of the performance appraisal system and their ability to objectively differentiate levels of performance, the State should proceed cautiously with adopting traditional private sector forms of pay for performance. In order to address the issue of movement through the salary range, Mercer recommends the State use steps to move employees through the range from minimum to midpoint based on time in job and based on employees maintaining fully satisfactory performance with no disciplinary or corrective actions in process. Key decisions include:
  - Time to reach mid-range (drives the size of the steps) and ending point in range for steps (e.g., midpoint)
  - Incorporating additional credit for exceptional credentials that are directly job related or for exceptional performance.
  - Whether to provide additional movement through the range beyond mid-range targeted to employees who consistently exceed expectations.



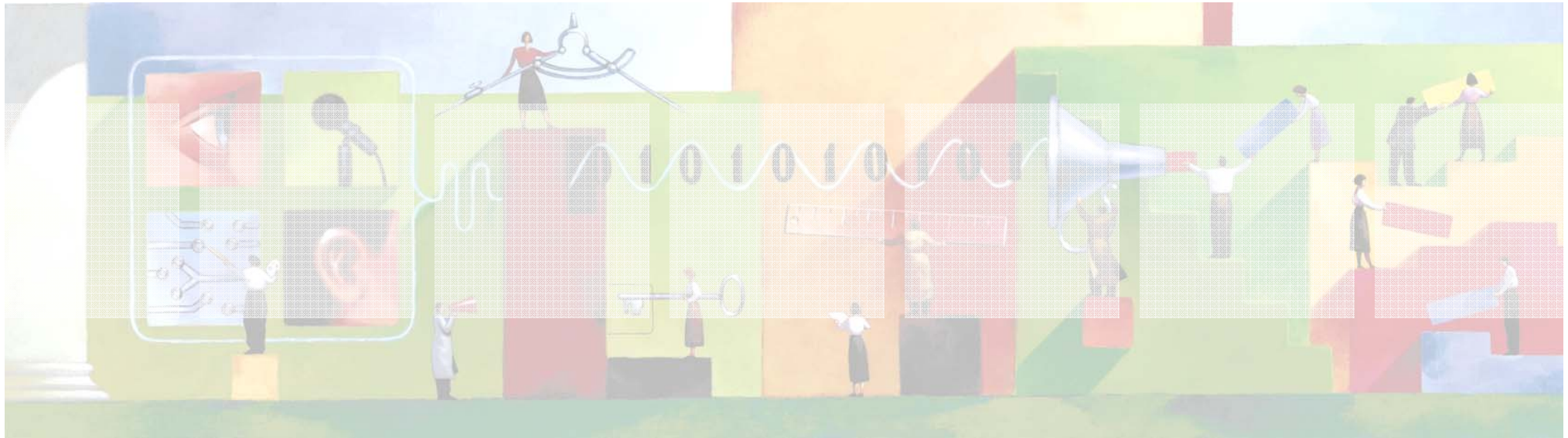
## Base Pay Structures and Policy Recommendations

### General Structure

- Final decisions will depend on cost and funding, but we recommend the following for current employees:



- Steps that take employees to midpoint in 10 years, assuming fully satisfactory performance
- Employees can earn additional steps for:
  - Directly related vocational school certificates or college degrees that are above the minimum requirements for the job but that clearly are directly related to or support performance in the job
  - Licenses or credentials that are not required for the job but that are directly related and that require significant additional training, completion of multiple examinations, etc. such as a CPA, PE, CCP, etc.
  - Exceptional performance (role model performance – top 10% exceptional performance).
- We recommend the State adopt criteria for consistently establishing hiring offers for new employees that use the same criteria as outlined above for establishing an appropriate offer, such that new employees are coming in at rates slightly less than or consistent with current employees for the same credentials.



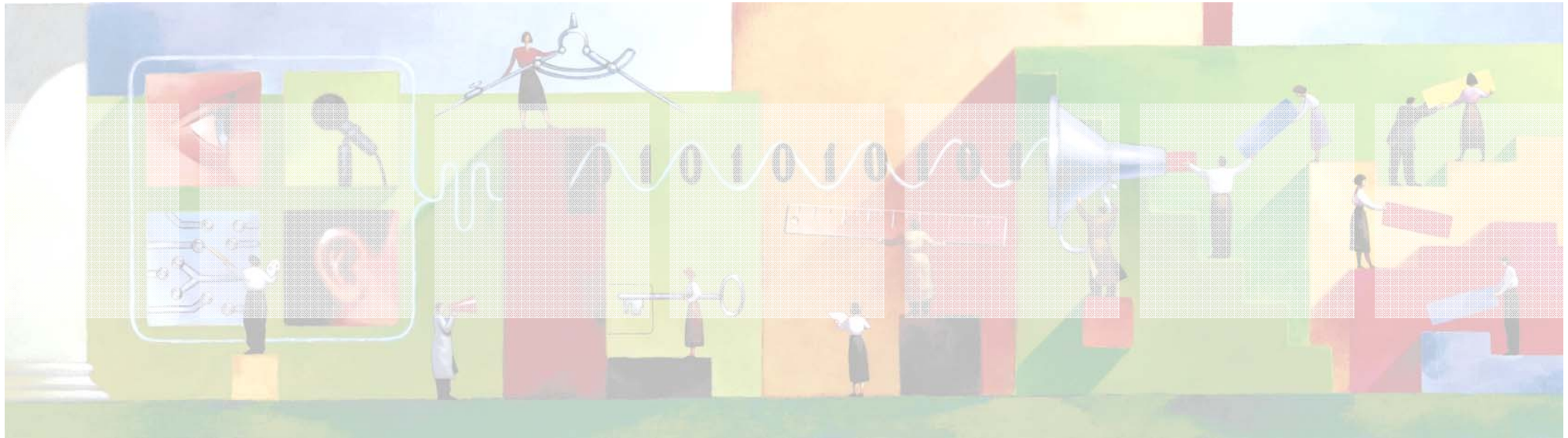
## Appendix A Recommended Structure



## Recommended Structure

As of January 1, 2008

Prop Grade	Min	Mid	Max	Mid-to-Mid	Range Spread
1	14,800	18,500	22,200	6%	50.0%
2	15,700	19,600	23,600	6%	50.3%
3	16,600	20,800	25,000	6%	50.6%
4	17,500	22,000	26,500	6%	51.4%
5	18,600	23,400	28,200	8%	51.6%
6	20,000	25,200	30,400	8%	52.0%
7	21,600	27,200	32,900	8%	52.3%
8	23,300	29,400	35,600	8%	52.8%
9	25,100	31,800	38,500	10%	53.4%
10	27,500	35,000	42,400	10%	54.2%
11	30,300	38,400	46,600	10%	53.8%
12	33,200	42,300	51,400	10%	54.8%
13	36,500	46,500	56,600	10%	55.1%
14	40,100	51,200	62,300	10%	55.4%
15	44,000	56,300	68,600	10%	55.9%
16	48,300	61,900	75,500	10%	56.3%
17	53,100	68,100	83,200	10%	56.7%
18	58,300	74,900	91,600	10%	57.1%
19	64,000	82,400	100,800	10%	57.5%
20	70,300	90,700	111,000	10%	57.9%
21	77,200	99,700	122,300	10%	58.4%
22	84,800	109,700	134,600	10%	58.7%
23	93,100	120,700	148,200	10%	59.2%
24	102,200	132,700	163,200	10%	59.7%
25	112,300	146,000	179,700		60.0%



## Appendix B

### Market Composites



# Market Composites

## Benchmark Job Base Pay and Total Cash Compensation

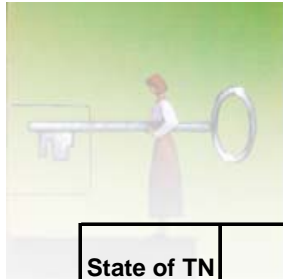
State of TN Job Code	State of TN Job Title	State of TN Base Salary	Base Salary			Total Cash Compensation		
			Survey Base 25th	Survey Base 50th	Survey Base 75th	Survey TCC 25th	Survey TCC 50th	Survey TCC 75th
9830	ACCOUNT CLERK	22,315	20,905	23,662	27,438	-	-	-
75242	ACCOUNTANT 2*	38,264	36,429	41,212	50,285	-	41,627	-
75244	ACCOUNTING MANAGER	51,021	54,623	65,602	78,547	58,352	71,262	85,785
9831	ACCOUNTING TECHNICIAN 1	26,505	23,586	26,725	29,845	-	-	-
73162	ADMINISTRATIVE SERVICES ASSISTANT 2*	30,966	28,501	31,489	35,328	-	31,895	-
73182	ADMINISTRATIVE SERVICES DIRECTOR 2	77,256	64,588	72,146	91,672	66,993	77,243	94,764
77881	AGRICULTURE LABORATORY DIRECTOR	65,088	62,627	70,946	77,402	-	-	-
91354	AIRCRAFT CHIEF PILOT	66,348	56,794	74,884	87,660	58,136	79,823	95,014
62871	AIRCRAFT MECHANIC 1	41,382	43,010	49,007	55,790	43,305	49,499	58,740
76443	ARCHITECT	62,387	42,937	61,265	82,570	42,937	-	82,570
79443	ATTORNEY 3	54,344	64,275	69,066	78,504	-	-	-
75286	AUDIT DIRECTOR 2	76,003	80,933	94,889	110,600	80,933	95,409	110,947
75282	AUDITOR 2*	39,967	38,671	43,876	50,736	-	-	52,900
62863	AUTOMOTIVE MASTER MECHANIC	35,204	31,823	35,215	39,282	35,597	42,937	49,267
7526BE	BANK EXAMINER 2, 3, 4	49,847	38,327	44,353	59,452	-	-	-
77843	BIOLOGIST 3	36,644	40,273	41,652	49,053	40,368	47,707	51,561
73376	BUDGET ADMINISTRATIVE DIRECTOR	103,512	84,457	102,442	119,285	90,335	112,917	130,065
73333	BUDGET ANALYST COORDINATOR	48,815	45,071	53,686	61,006	47,176	56,030	62,562
62952	BUILDING MAINTENANCE WORKER 2	24,911	23,953	29,922	35,696	-	-	-
97443	CADD TECHNICIAN 3	31,411	32,874	34,475	40,962	-	-	-
98690	CANCER REGISTRAR	39,880	29,905	35,007	38,244	-	-	38,258
75773	CENTRAL STORES DIRECTOR	56,856	52,368	60,970	70,603	-	63,729	-
77852	CHEMIST 2*	37,445	45,869	49,450	56,336	-	51,239	57,937
75294	CHIEF OF ACCOUNTS	102,516	88,152	110,568	162,331	88,334	110,905	167,233
75593	CHIEF OF INFORMATION SYSTEMS	131,124	134,889	163,425	203,347	135,512	165,112	212,489
76283	CIVIL ENGINEERING DIRECTOR	81,732	85,924	96,682	112,277	93,998	106,840	126,907
76282	CIVIL ENGINEERING MANAGER 2	73,400	77,965	87,669	102,171	88,543	101,297	122,222
73707	CLASSIFICATION/COMPENSATION ANALYST 3	37,254	40,111	43,021	48,901	-	44,360	50,411
2532	CLERK 2	19,111	19,121	22,152	25,631	-	-	-
75544	COMPUTER OPERATIONS MANAGER 4	54,108	75,898	79,691	87,403	78,185	84,327	91,823
42231	COOK 1	18,027	18,206	20,389	22,368	-	-	-
45741	CORRECTIONAL OFFICER	25,536	28,959	32,394	46,442	-	33,877	49,805
62221	CUSTODIAL WORKER 1	17,755	16,368	18,517	21,676	-	-	-



# Market Composites

## Benchmark Job Base Pay and Total Cash Compensation

State of TN Job Code	State of TN Job Title	State of TN Base Salary	Base Salary			Total Cash Compensation		
			Survey Base 25th	Survey Base 50th	Survey Base 75th	Survey TCC 25th	Survey TCC 50th	Survey TCC 75th
2762	DATA ENTRY OPERATOR	21,050	19,825	22,110	25,009	-	-	-
755DBA	DATABASE ADMIN 2, 3	61,854	57,600	65,847	79,586	74,469	80,618	90,866
98681	DENTAL HYGIENIST	38,148	32,903	40,251	48,847	-	-	-
44233	DEVELOPMENTAL TECHNICIAN SUPERVISOR 1	27,100	23,299	25,611	28,417	-	-	-
79982	DISABILITY CLAIMS EXAMINER 2*	32,553	29,918	36,149	39,875	29,918	37,147	41,111
79622	ELIGIBILITY COUNSELOR 2*	30,168	-	29,319	-	-	-	-
78422	EMPLOYMENT SECURITY INTERVIEWER 2*	30,589	29,235	35,092	43,605	-	-	-
72973	ENVIRONMENTAL PROGRAM DIRECTOR	82,349	81,136	93,790	110,396	84,514	104,441	127,860
76553	ENVIRONMENTAL PROTECTION SPECIALIST 3*	46,876	58,618	65,484	72,026	-	-	-
72922	ENVIRONMENTAL SPECIALIST 3*	36,827	40,562	44,671	63,384	-	-	71,744
64540	EQUIPMENT OPERATOR	28,770	25,354	28,574	31,078	-	-	-
73173	EXECUTIVE ADMINISTRATIVE ASSISTANT 3	69,367	52,366	70,064	83,807	55,073	76,935	90,365
298ES	EXECUTIVE SECRETARY 1, 2	30,087	31,732	36,956	40,559	37,381	41,080	46,263
62690	FACILITIES SUPERVISOR	33,479	35,016	39,429	45,058	35,324	39,429	46,340
75792	FACILITY ADMINISTRATOR 2	46,907	41,822	55,291	64,416	43,286	55,291	70,858
75291	FISCAL DIRECTOR 3	76,752	93,099	109,509	144,709	93,255	110,445	153,094
62894	FLEET SUPERVISOR 2	38,560	39,838	46,066	55,657	-	50,901	69,275
77363	FOOD SERVICE DIRECTOR 3	51,570	42,944	52,690	66,837	43,413	56,218	73,083
4226FS	FOOD SERVICE SUPERVISOR 2, 3	26,820	29,254	34,405	40,551	31,760	37,091	45,661
42210	FOOD SERVICE WORKER	18,264	15,800	17,865	20,132	-	-	-
98740	FORENSIC TECHNICIAN	26,218	-	29,847	-	-	-	-
7777F	FORESTER 2,3	38,121	-	37,448	-	-	-	-
79450	GENERAL COUNSEL 4	92,452	106,016	128,833	159,944	109,339	134,197	162,755
77454	GEOLOGIST 4	44,509	43,162	48,164	52,930	45,138	53,395	60,827
93423	GRAPHICS DESIGNER 1	32,034	30,056	33,831	37,852	-	-	-
6224GW	GROUNDS WORKER 1,2	21,615	18,214	20,627	23,746	-	-	-
62832	HEATING AND REFRIGERATION MECHANIC 2	30,059	27,474	31,029	36,902	-	-	-
73712	HUMAN RESOURCES ANALYST 2*	35,118	35,534	40,729	48,940	-	-	-
73752	HUMAN RESOURCES DIRECTOR 3	66,880	85,647	97,746	112,345	86,919	99,048	112,774
73789	HUMAN RESOURCES PROGRAM DIRECTOR 4	85,008	86,555	108,240	133,851	90,013	108,240	143,105
6361	HUMAN RESOURCES TECHNICIAN 2*	24,515	26,133	29,313	32,795	-	29,402	-



## Market Composites Benchmark Job Base Pay and Total Cash Compensation

State of TN Job Code	State of TN Job Title	State of TN Base Salary	Base Salary			Total Cash Compensation		
			Survey Base 25th	Survey Base 50th	Survey Base 75th	Survey TCC 25th	Survey TCC 50th	Survey TCC 75th
72893	INDUSTRIAL HYGIENIST 3	42,991	50,690	59,199	72,144	-	-	-
73872	INFORMATION OFFICER	53,959	44,796	51,725	58,979	45,907	54,752	62,705
75552	INFORMATION RESOURCE SUPPORT SPECIALIST 3	40,937	34,594	41,898	49,139	35,091	42,113	50,164
75569	INFORMATION SYSTEMS DIRECTOR 4	85,500	91,989	103,933	120,559	92,848	104,906	123,279
77894	LABORATORY SUPERVISOR 1 (CERTIFIED)	54,924	51,861	58,644	63,933	-	-	-
98122	LABORATORY TECHNICIAN 2	25,069	26,132	29,016	33,191	-	-	-
62915	LABORER	15,232	18,559	21,524	24,879	-	-	-
2350	LEGAL ASSISTANT	33,558	37,919	41,833	48,788	39,431	43,823	55,047
44592	LICENSED PRACTICAL NURSE 2*	30,363	27,665	30,697	33,334	-	-	-
2641	MAIL CLERK	17,945	18,742	20,461	22,447	-	-	-
2642	MAIL TECHNICIAN 1	22,754	20,515	23,864	25,999	-	24,171	26,547
2712	MAINFRAME COMPUTER OPERATOR 2*	28,018	25,659	30,266	34,757	26,352	31,502	-
62342	MAINTENANCE ELECTRICIAN 2	29,624	32,355	35,596	43,064	-	-	-
2540	MEDICAL RECORDS ASSISTANT	25,864	21,697	24,161	27,119	-	-	-
2961	MEDICAL TRANSCRIBER 1	24,713	24,250	26,218	28,368	25,885	29,218	30,003
77872	MICROBIOLOGIST 2* (CERTIFIED)	44,095	39,083	46,148	50,827	39,725	47,340	53,579
796SOC	MULT SOCIAL SVC WORKERS	33,732	34,472	35,918	40,828	-	-	-
72786	NURSE PRACTITIONER	65,354	65,629	69,138	75,640	-	-	-
72903	OCCUPATIONAL SAFETY SPECIALIST 3	42,819	38,521	46,003	60,002	52,412	53,778	63,245
44551	OCCUPATIONAL THERAPY ASSISTANT (CERTIFIED)	45,340	35,845	39,421	44,806	-	-	-
75592	OIR DIRECTOR 2 (TELECOM)	104,106	80,593	105,986	121,772	80,593	105,986	125,459
761SUPV	OPS, ROADWAY, STRUC SUPV I	52,313	52,868	55,350	58,476	52,868	55,350	58,476
72681	PHYSICAL THERAPIST	65,897	56,789	62,194	64,939	-	-	65,490
44561	PHYSICAL THERAPY ASSISTANT (CERTIFIED)	47,289	38,922	41,510	44,676	-	-	-
62585	PRINTING SERVICES DIRECTOR	59,328	55,169	64,531	76,498	55,255	65,275	77,557
78144	PROBATION/PAROLE MANAGER 1	42,813	-	48,563	-	-	-	-
7541	PROCUREMENT OFFICER 1	29,438	27,768	33,603	40,433	28,441	-	41,285
75523	PROGRAMMER/ANALYST 3	50,856	51,277	53,778	61,531	53,290	57,877	65,393
442PDT	PSYCHIATRIC/DEVL TECH	22,140	20,093	22,149	24,506	-	-	-
78887	PSYCHOLOGIST	66,845	52,937	63,219	74,818	52,937	63,625	75,093
77898	PUBLIC HEALTH LABORATORIES DIRECTOR	135,000	115,660	125,332	146,443	123,519	132,847	-
72795	PUBLIC HEALTH NURSING DIRECTOR	65,568	-	79,483	-	-	-	-
75771	PURCHASING ADMINISTRATOR	47,046	50,664	61,775	76,852	56,104	82,297	121,233
75723	PURCHASING AGENT 3	32,404	37,754	42,980	53,208	40,944	46,507	57,536
75772	PURCHASING DIRECTOR	67,476	75,337	87,155	103,725	75,972	98,190	126,035



# Market Composites

## Benchmark Job Base Pay and Total Cash Compensation

State of TN Job Code	State of TN Job Title	State of TN Base Salary	Base Salary			Total Cash Compensation		
			Survey Base 25th	Survey Base 50th	Survey Base 75th	Survey TCC 25th	Survey TCC 50th	Survey TCC 75th
73155	RECORDS MANAGEMENT DIRECTOR	56,112	70,689	81,152	92,343	75,009	86,722	104,368
72632	RECREATION THERAPIST 2	32,411	29,667	32,428	35,729	-	-	36,239
72772	REGISTERED NURSE 2*	42,723	42,498	46,709	51,873	-	-	-
761RSO	ROAD, OPS, STRUC SPEC 2	46,585	45,539	53,194	62,301	-	-	-
294SE	SECRETARY, AA1, ADM SEC	25,132	23,312	26,343	29,631	-	27,741	-
45331	SECURITY GUARD 1	22,167	20,721	23,837	28,654	21,570	26,188	40,602
72701	SPEECH AND LANGUAGE PATHOLOGIST	57,635	52,007	56,192	62,566	-	-	-
93892	STATE PHOTOGRAPHER 2	42,660	33,345	36,113	42,263	37,373	40,737	49,032
75948	STATISTICAL RESEARCH SPECIALIST	57,967	48,731	55,437	64,626	50,918	60,368	78,442
758TAU	TAX AUDITOR 2,3	43,088	-	38,914	-	-	-	-
2550	TAX INFORMATION ASSISTANT	23,081	23,165	25,664	29,827	23,619	-	-
2731	TELEPHONE OPERATOR 1	19,756	20,005	22,285	25,398	-	22,604	-
73771	TRAINING OFFICER 1	42,475	36,861	44,739	51,039	39,870	47,629	52,753
76783	TRANSPORTATION DIRECTOR	79,080	77,965	87,669	102,171	88,543	101,297	122,222
76212	TRANSPORTATION TECHNICIAN 3	36,098	37,145	40,552	48,154	-	-	-
75278	UTILITY RATE SPECIALIST 3	44,532	46,075	51,307	55,680	-	-	59,000
64510	VEHICLE OPERATOR	20,191	20,740	24,172	27,745	-	-	-
79932	VOCATIONAL REHABILITATION COUNSELOR 2*	31,526	-	35,721	-	-	-	-
62920	WAREHOUSE WORKER	21,296	20,528	22,682	26,250	-	-	-
75539	WEBSITE DEVELOPER 2	47,748	46,044	52,058	59,044	48,808	55,918	66,240



## Appendix C

### Turnover Information



## Turnover Information

Job classes with turnover greater than 25% and 5 or more active employees  
(excluding flex classes)

Class Title	Active EEs 12/31/06	2006 Exits	Voluntary Turnover %
BINDERY WORKER 2	6	15	250
CORRECTIONAL INTERNAL AFFAIRS INVESTIGATOR	9	13	144
PATIENT ACCOUNTS SPECIALIST 1	15	15	100
BOILER OPERATOR 1	22	17	77
CHILDREN'S SERVICES OFFICER	432	196	45
TELECOMMUNICATIONS/UTILITIES CONSULTANT	7	3	43
MUSIC THERAPIST 1	5	2	40
CONTRACTOR INSPECTOR	8	3	38
AUDIT DIRECTOR 1	8	3	38
OIR DIRECTOR 1	8	3	38
GREENSKEEPER	11	4	36
TAXPAYER SERVICES REPRESENTATIVE 1	22	8	36
MUSEUM PROGRAM ASSISTANT	6	2	33
HEALTH PHYSICIST SUPERVISOR 2	6	2	33
FACILITIES CONSTRUCTION DIRECTOR	6	2	33
ENVIRONMENTAL PROGRAM DIRECTOR	7	2	29
ASST TO GOVERNOR	7	2	29
LEGAL SERVICES DIRECTOR	7	2	29
FACILITY ADMINISTRATOR 2	11	3	27
UNAUTHORIZED SUBSTANCES TAX ENFORCEMENT OFFICER	11	3	27
NUTRITIONIST 2	19	5	26
FOOD SERVICE STEWARD 1	58	15	26
FIREFIGHTER 1	16	4	25
SPEECH AND LANGUAGE PATHOLOGIST	20	5	25
OCCUPATIONAL SAFETY SPECIALIST SUPERVISOR	8	2	25
REGULATORY BOARD EXECUTIVE DIRECTOR	8	2	25
CORRECTIONAL PROGRAM MANAGER 1	8	2	25
AGING PROGRAM COORDINATOR	8	2	25
FIELD SUPERVISOR 2	8	2	25



## Turnover Information

Job Classes with turnover greater than 10% and more than 75 employees  
(excluding flex classes)

Class Title	Active EEs 12/31/06	2006 Exits	Voluntary Turnover %
CHILDREN'S SERVICES OFFICER	432	196	45
CORRECTIONAL OFFICER	2494	517	21
NURSE PRACTITIONER	112	19	17
DEVELOPMENTAL TECHNICIAN SUPERVISOR 2	77	12	16
DEVELOPMENTAL TECHNICIAN	1361	204	15
FOOD SERVICE WORKER	147	19	13
ACCOUNT CLERK	246	30	12
PSYCHIATRIC TECHNICIAN	854	98	11
EXECUTIVE ADMINISTRATIVE ASSISTANT 3	75	8	11
CUSTODIAL WORKER 1	285	30	11

# Turnover Information

## Flex Class Turnover

Class Title	Active Employees	Separations	Turnover
Financial Institutions Examiner 1	9	2	22.2%
Bank Examiner 2	5	5	100.0%
Combined	14	7	50.0%

Emergency Management Operations Officer 1	7	6	85.7%
Emergency Management Operations Officer 2	4	0	0.0%
Combined	11	6	54.5%

Licensed Practical Nurse 1	5	3	60.0%
Licensed Practical Nurse 2	313	60	19.2%
Combined	318	63	19.8%

Statistician 2	7	4	57.1%
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Social Counselor 1	10	5	50.0%
Social Counselor 2	117	13	11.1%
Combined	127	18	14.2%

Disability Claims Examiner 1	58	22	37.9%
Disability Claims Examiner 2	135	19	14.1%
Combined	193	41	21.2%

Attorney 1	0	3	0.0%
Attorney 2	30	11	36.7%
Combined	30	14	46.7%

Revenue Enforcement Officer 1	6	2	33.3%
Revenue Enforcement Officer 2	54	5	9.3%
Combined	60	7	11.7%

Training Specialist 2	28	8	28.6%
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Eligibility Counselor 1	275	71	25.8%
Eligibility Counselor 2	1606	121	7.5%
Combined	1881	192	10.2%

Children's Services Case Manager 1	363	92	25.3%
Children's Services Case Manager 2	1700	177	10.4%
Combined	2063	269	13.0%

Registered Nurse 1	2	2	100.0%
Registered Nurse 2	497	85	17.1%
Combined	499	87	17.4%

Class Title	Employees	Separations	Turnover
Forester 1	3	3	100
Forester 2	7	2	28.6
Combined	10	5	50.0%

Materials Assistant 1	2	1	50
Materials Assistant 2	7	0	0
Combined	9	1	11.1%

TBI Special Agent - Criminal Investigator 1	27	0	0
TBI Special Agent - Criminal Investigator 2	102	17	16.7
Combined	129	17	13.2%

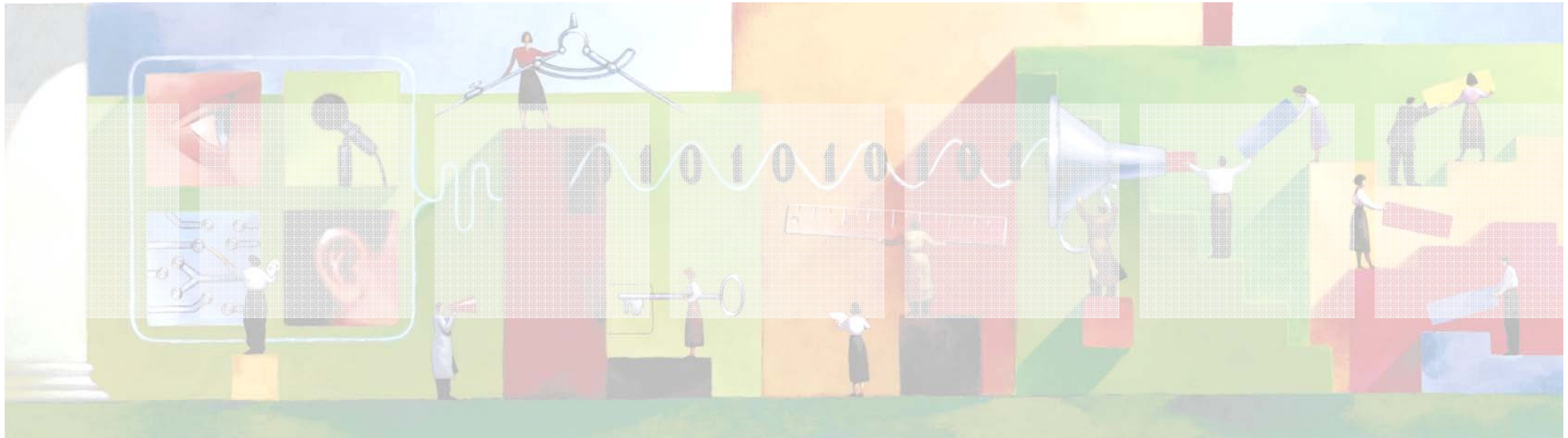
Nurses Assistant 1	1	0	0
Nurses Assistant 2	147	18	12.2
Combined	148	18	12.2%

Public Health Educator 1	3	1	33.3
Public Health Educator 2	29	4	13.8
Combined	32	5	15.6%

Veterans Employment Rep. 1	3	1	33.3
Veterans Employment Rep. 2	34	2	5.9
Combined	37	3	8.1%

Veterans Benefits Rep. 1	4	1	25
Veterans Benefits Rep. 2	3	1	33.3
Combined	7	2	28.6%

Occupational Safety Specialist 1	2	1	50
Occupational Safety Specialist 2	3	0	0
Combined	5	1	20.0%



## Appendix D

### Total Remuneration Market Analysis Highlights



## Total Remuneration Market Analysis Methodology

- Finally, in line with current best practices, Mercer and the Department of Personnel wanted to look at the value of cash compensation provided state employees in the context of the value of the total pay and benefit package, using a total remuneration comparison.
- The total remuneration index quantifies the relationship of the value of State of Tennessee's cash compensation and benefits to the value of compensation provided in the general Tennessee market and benefits provided by a selected peer group
- The focus in the benefit comparisons is on employer-provided value
- "Value" is determined from the employee's perspective, *i.e.*, dollar values represent the amount of pre-tax dollars required for the employee to purchase or reproduce the benefit outside of employment with the organization
- Aggregate plan values are reported on a Total Remuneration and Total Benefits basis
  - Total Remuneration is the sum of Cash Compensation, Retirement/Savings, Health/Group, and Long Term Disability
  - Total Benefits is the sum of Retirement/Savings, Health/Group, and all categories of paid time off (Time Loss)
- The plans that are valued are those plans that are provided to newly-hired employees; "grandfathered" or "frozen" plans are not considered in the valuation

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer



## Total Remuneration Market Analysis Results Benefits Peer Group

### Benefits Peer Group

- BellSouth Corporation
- Cracker Barrel Old Country Store, Inc.
- Dollar General Corporation
- Eastman Chemical Company
- FedEx Express
- International Paper Company
- Metropolitan Government Nashville
- Target Corporation
- Tennessee Valley Authority
- The University of Tennessee
- U.S. Office of Personnel Management
- United Parcel Service
- Vanderbilt University

### About the Charts

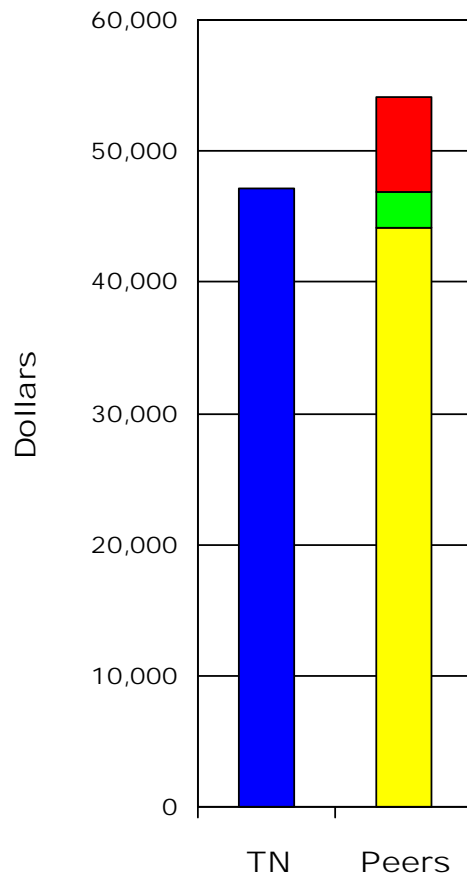
- The blue bar (TN) represents State of Tennessee's value
- The stacked bar (Peers) illustrates the distribution of observed values among the peer group. On the peer stacked bar:
  - The yellow segment represents the 1st quartile (25th percentile) value, i.e., 25% of the observed values fall below this level
  - The green segment represents the median (50th percentile) value, i.e., 50% of the observed values fall below this level
  - The red segment represents the 3rd quartile (75th percentile) value, i.e., 75% of the observed values fall below this level
- The values shown are values for the composite workforce; a more detailed report was provided under separate cover
- Rank is the ordered position of State of Tennessee value for a benefit or total when compared to all organizations with that benefit
  - A rank of 1 signifies the highest value
  - When the State of Tennessee's value ties with that of another organization or organizations, State of Tennessee's rank will be the higher position



## Total Remuneration Market Analysis Results

### Total Remuneration Comparison

- The State of Tennessee's total remuneration is fully competitive at the median, at 101% of median



- Rank: 7 out of 14
- Exceeds peer group median by 1%
- Tennessee's position is driven by a very favorable comparison in the Retirement/Savings area combined with a favorable comparison in the Health/Group area; this is offset by an unfavorable comparison in the Cash Compensation area
  - Retirement/Savings exceeds median by 72%
  - Health/Group exceeds median by 9%
  - \*Cash Compensation trails median by 9%

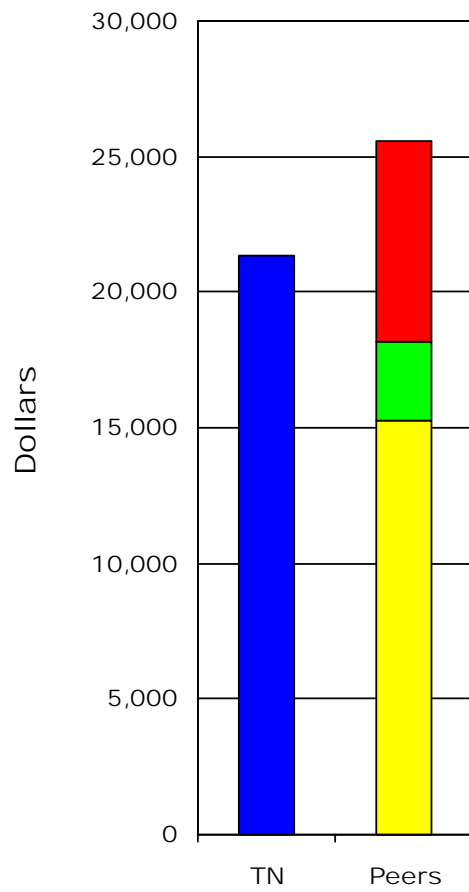
\*Note that the total remuneration analysis was done on a subset of 55 jobs out of the larger benchmark sample



## Total Remuneration Market Analysis Results

### Total Benefits Comparison

- The State of Tennessee's benefits are significantly above the median of the select peer group

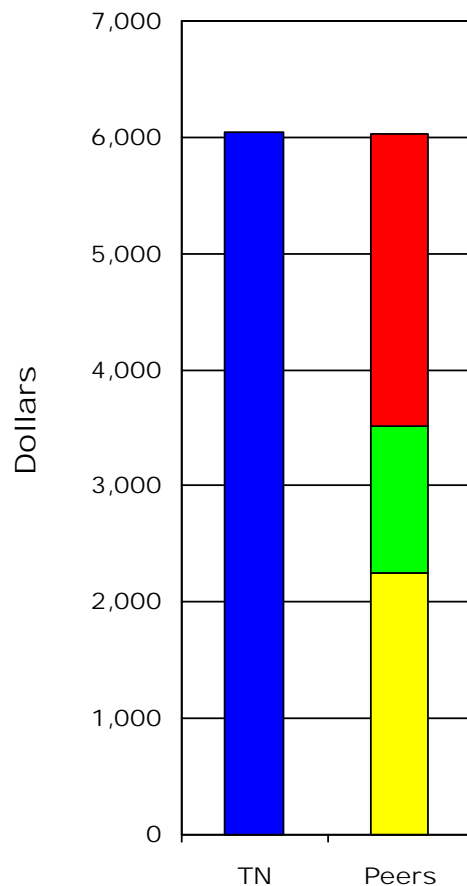


- Rank: 6 out of 14
- Exceeds peer group median by 18%
- Tennessee's position is driven by a very favorable comparison in the Retirement/Savings area combined with a favorable comparison in the Health/Group area and a competitive comparison in the Time Loss (paid time off) area
  - Retirement/Savings exceeds median by 72%
  - Health/Group exceeds median by 9%
  - Time Loss trails median by 5% (competitive vacation holding and sick leave days but low on STD, and lacking personal leave and LTD)



## Total Remuneration Market Analysis Results Retirement/Savings Plan Comparison

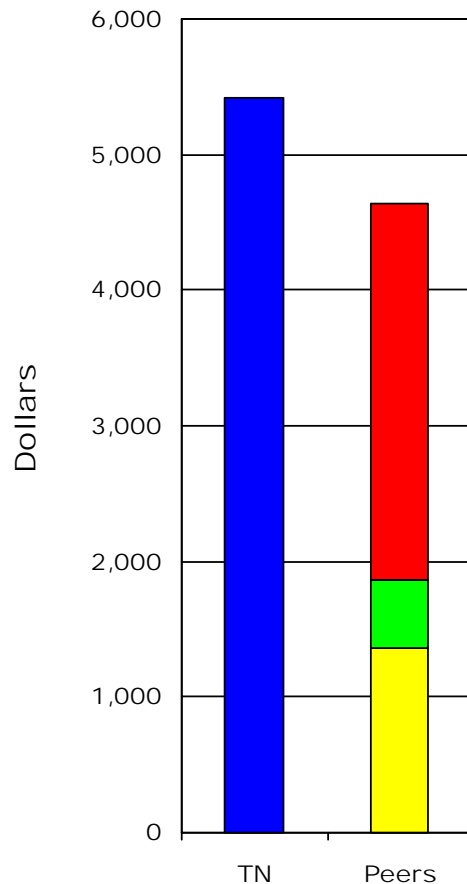
- State of Tennessee's retirement/savings plans are significantly above median for the select peer group



- Rank: 4 out of 14
- Exceeds peer group median by 72%
- Tennessee's position is driven by a very favorable comparison in the defined benefit area, offset by an unfavorable comparison in the defined contribution area combined with the lack of a stock purchase plan
  - Defined Benefit exceeds median by 192% (rank 3 of 11)
  - Defined Contribution trails median by 69%
- Eleven organizations (including Tennessee) offer both defined benefit and defined contribution plans; one of these peers allows exempt employees to choose between a Defined Benefit plan and a Defined Contribution plan with employer contributions; one has a SERP for executives only
- Three peers offer defined contribution plans with no accompanying defined benefit plan
- One peer offers a stock purchase plan with value



## Total Remuneration Market Analysis Results Defined Benefit Plan Comparison

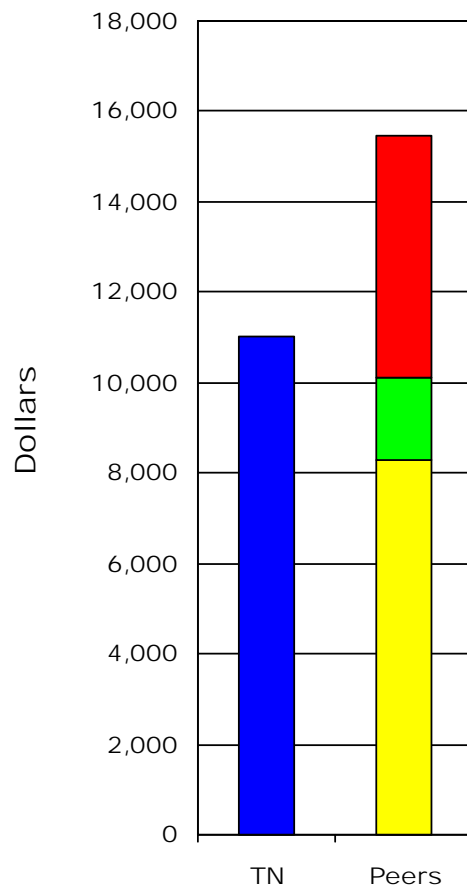


- Rank: 3 out of 11
- Exceeds peer group median by 192%
- Tennessee's very favorable comparison results from having a normal retirement age of 60 combined with having an annual cost-of-living adjustment
- Plan types
  - Four peers have a cash balance plan
  - One has a retirement equity plan
  - One has a 3-year Final Average plan
  - Three have a 5-year Final Average plan
  - One has a 1-year Final Average SERP for executives only
  - Tennessee has a 5-year Final Average plan
- Five peers include bonus in the pay definition
- Eight peers have excess plans removing legislated limits from salary and/or benefits
- Four organizations (including Tennessee) provide annual cost-of-living adjustments
- One peer provides temporary benefits to early retirees
- One peer requires employee contributions



## Total Remuneration Market Analysis Results Health/Group Plan Comparisons

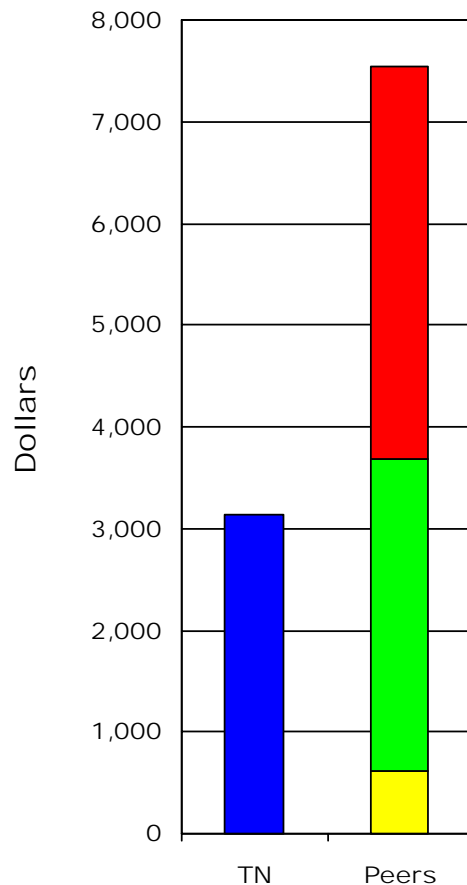
- State of Tennessee's health/group plans are significantly above the median for the select peer groups



- Rank: 7 out of 14
- Exceeds peer group median by 9%
- Tennessee's favorable comparison results from being one of only nine organizations that provides employer-subsidized post-retirement medical; this is offset by unfavorable comparisons to this select group in other areas
  - Medical trails median by 11%
  - Dental trails median by 78%
  - Life Insurance trails median by 42%
  - Health Care FSA trails median by 36%
  - Dependent Care FSA trails median by 26%
  - Post-retirement Medical is 5.5 times the median of all peers, but trails the median by 15% when compared to the peers who have an employer-subsidized plan



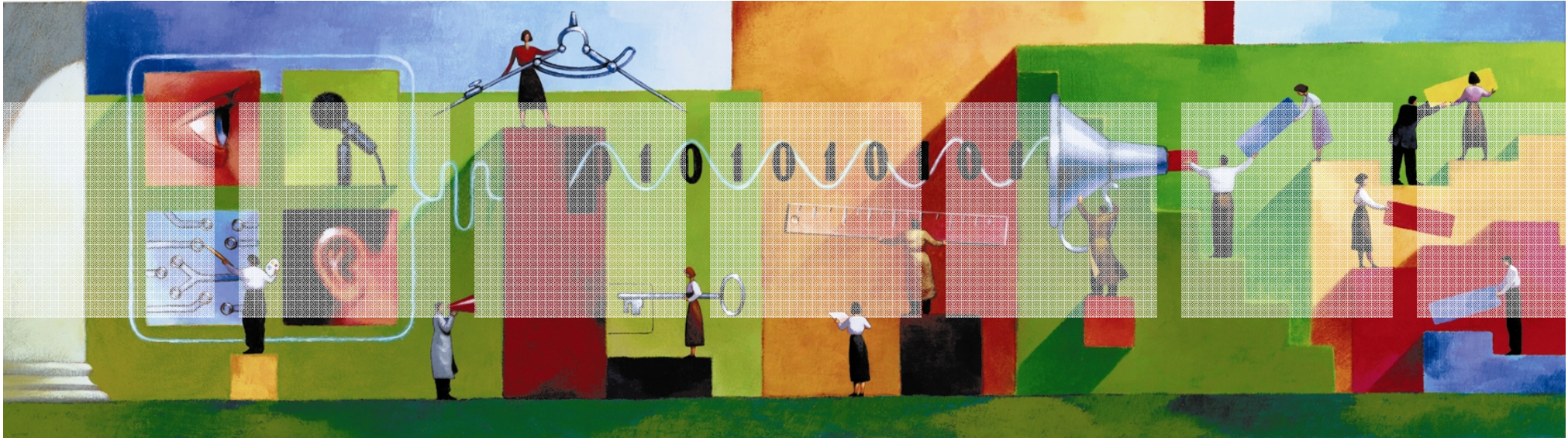
## Total Remuneration Market Analysis Results Post-retirement Medical



- Rank: 5 out of 9
- Post-retirement Medical is 5.5 times the median of all peers, but trails the median by 15% when compared to the peers who have an employer-subsidized plan
- Tennessee's unfavorable comparison (among the employer-subsidized plans) results from having contributions that are high relative to the peer group with an employer-subsidized plan combined with requiring spouses to pay 100% of the post-65 premiums
- Four peers do not offer post-retirement medical
- One peer provides an "access only" plan for all retirees; "access only" plans that are 100% retiree-paid do not generate an employer-subsidized value
- Three peers have placed a cap on future employer contributions
- The remaining peers offer both pre-65 and post-65 employer-subsidized plans; three of these peers base retiree contributions on service

# MERCER

Human Resource Consulting



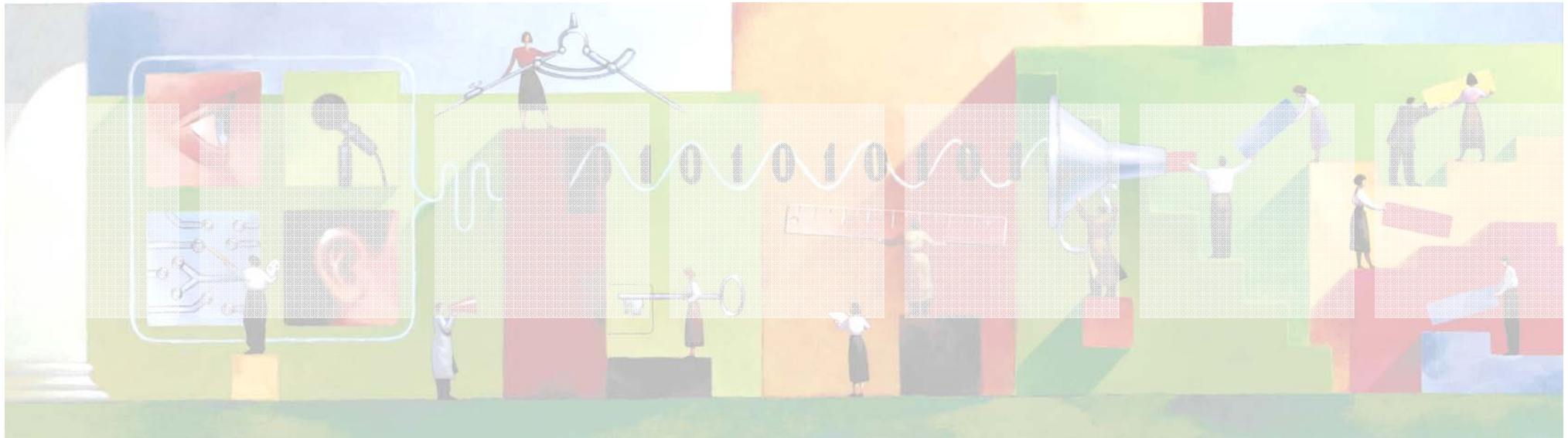
## State Executive Group Pay Plan Review Methodology and Recommendations

May 23, 2007



## Table of Contents

- Project Overview and Objectives
- Executive Pay Practices Review and Recommendations

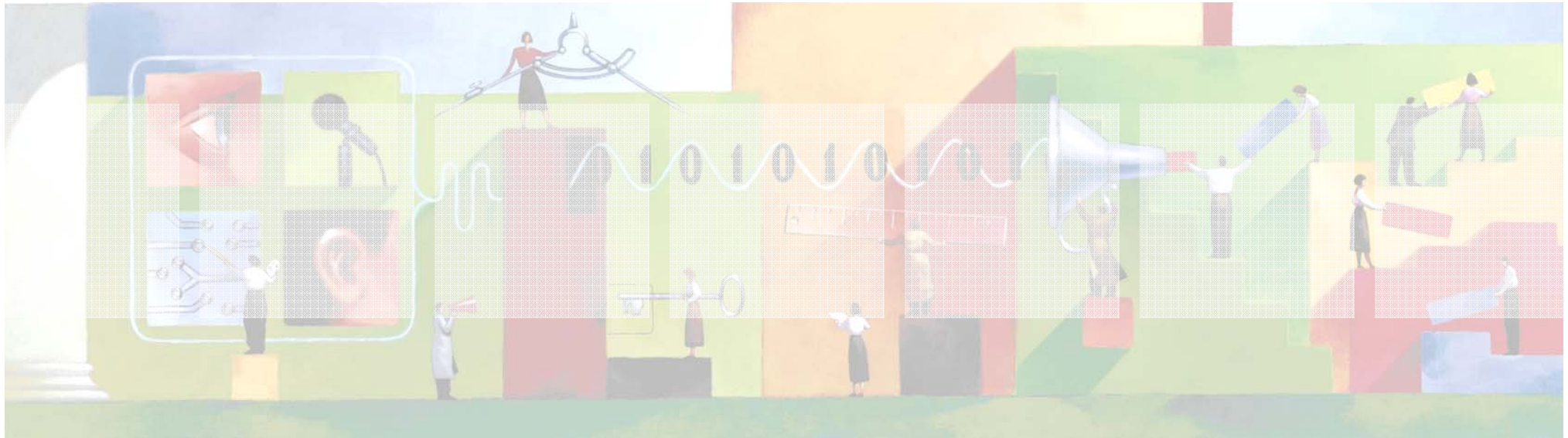


## Project Overview and Objectives



## Project Overview and Objectives

- The State of Tennessee Department of Personnel retained Mercer to analyze the State's pay plan for the full-time employees of the Executive Branch. The project included a review of pay for the management positions.
- The Department had previously conducted a custom survey for the Commissioner level positions, and Mercer was charged with reviewing that data, supplementing it with additional published market data to the extent feasible, and preparing recommendations for pay ranges for this group.
- While the management focus groups were structured to gather information on broad-based employee pay issues, some comments relative to executive level pay were expressed. Key points included:
  - Pay offered by the State is perceived as lower than that offered by Nashville Metro Government for a comparable role in most cases (even though taking into account the size and complexity of the State role, one might think it would be higher)
  - Pay offered by the State is perceived as not comparable to what is being offered by other types of public and private employers.



## Executive Pay Practices Review and Recommendations



## Executive Pay Practices Review and Recommendations

- Mercer was asked to review the market data and information compiled by the Department of Personnel during the last six months and make recommendations for refining the approach to pay for jobs above the Director level.
- As a first step Mercer reviewed the market data that had been collected on each of the jobs for roles as comparable as possible in:
  - The surrounding state governments
  - Nashville Metro Government/Davidson County or related public entities like the local Board of Education, University of Tennessee System and the Tennessee Board of Regents
  - Other cities and county governments in Tennessee
  - Federal government entities, including the Tennessee Valley Authority.
- We also compiled additional published market data, where available, predominantly on comparable not-for-profit and government organizations.
- This data was used to establish market reference points, giving greatest weight to the surrounding state government and government entities located in Nashville. The composite takes into account the size and complexity of the various agencies.



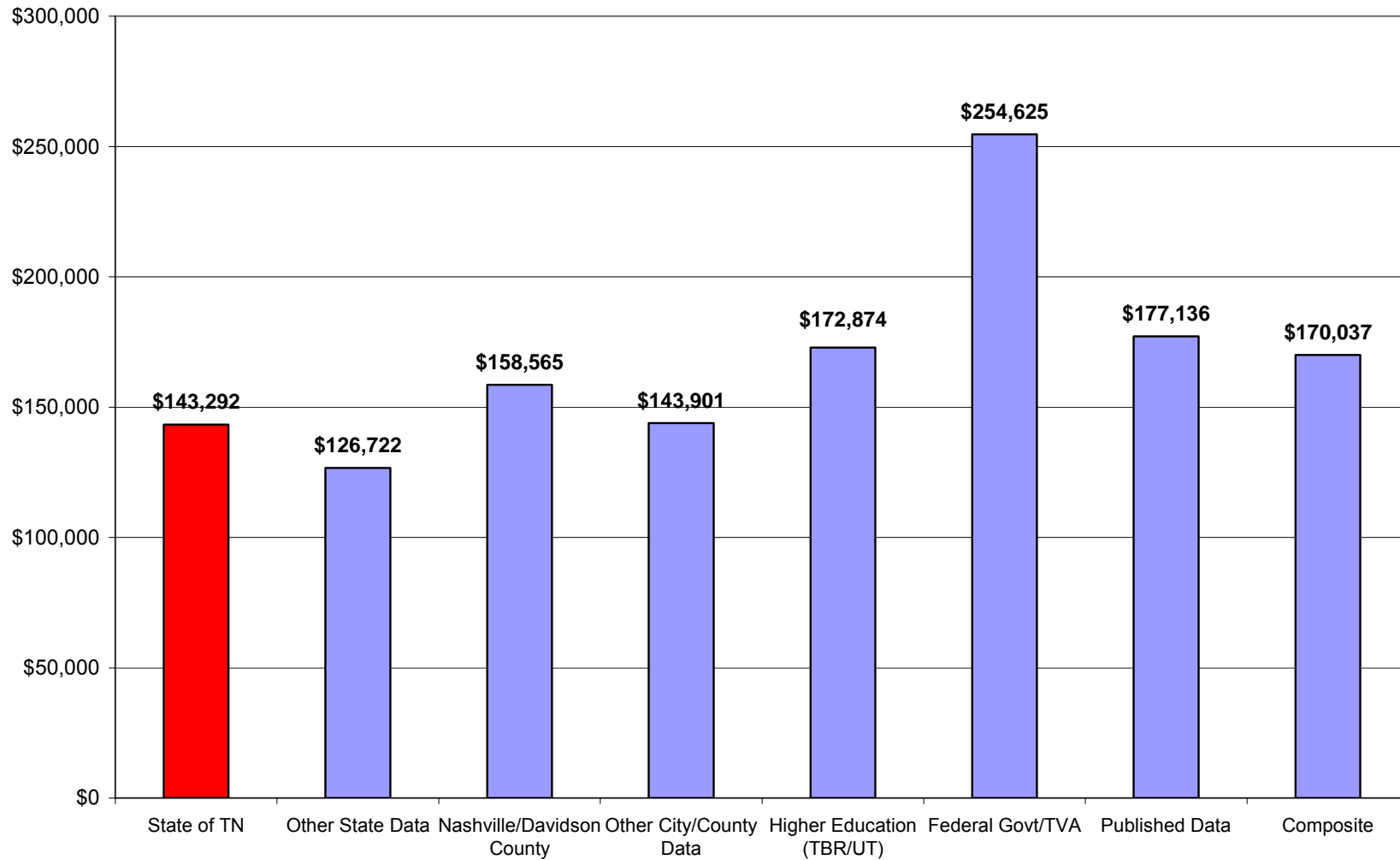
## Executive Pay Practices Review and Recommendations

- In general the surrounding State Government and Metro Nashville data were weighted equally, and the other sources of data including other city/county governments in Tennessee, the TBR/UT System matches, and Federal Government and TVA were each weighted half as much as the other Southeastern state composite and Metro Nashville matches.
- Metro Nashville and data for Tennessee city/county government entities was augmented by 10% to reflect the greater breadth and scope of the State roles.
- Published data on other not-for-profit and government employees, where available, was weighted approximately 25% of the total composite.



## Executive Compensation Commissioner of Finance and Administration

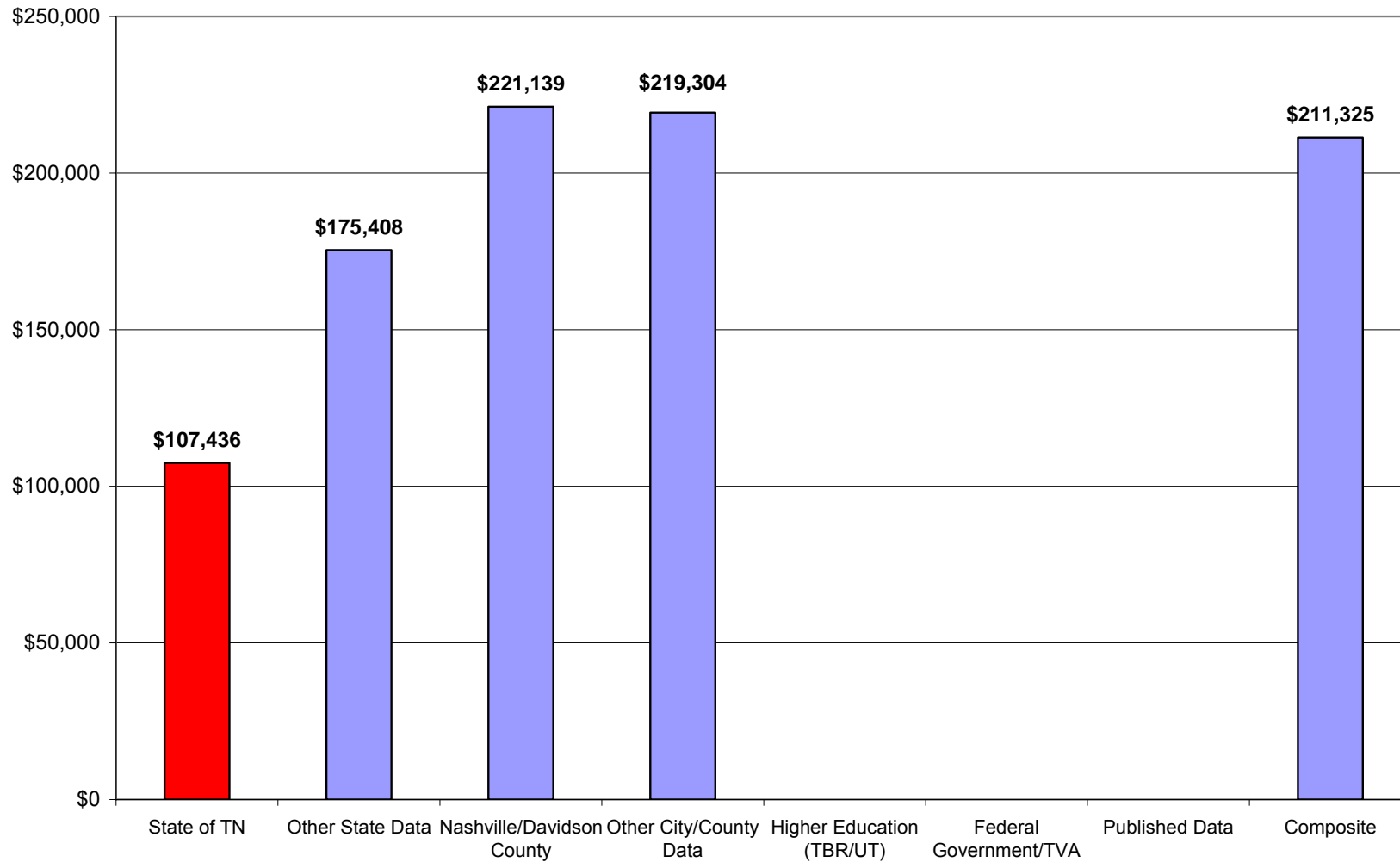
Finance & Administration





## Executive Compensation Commissioner of Education

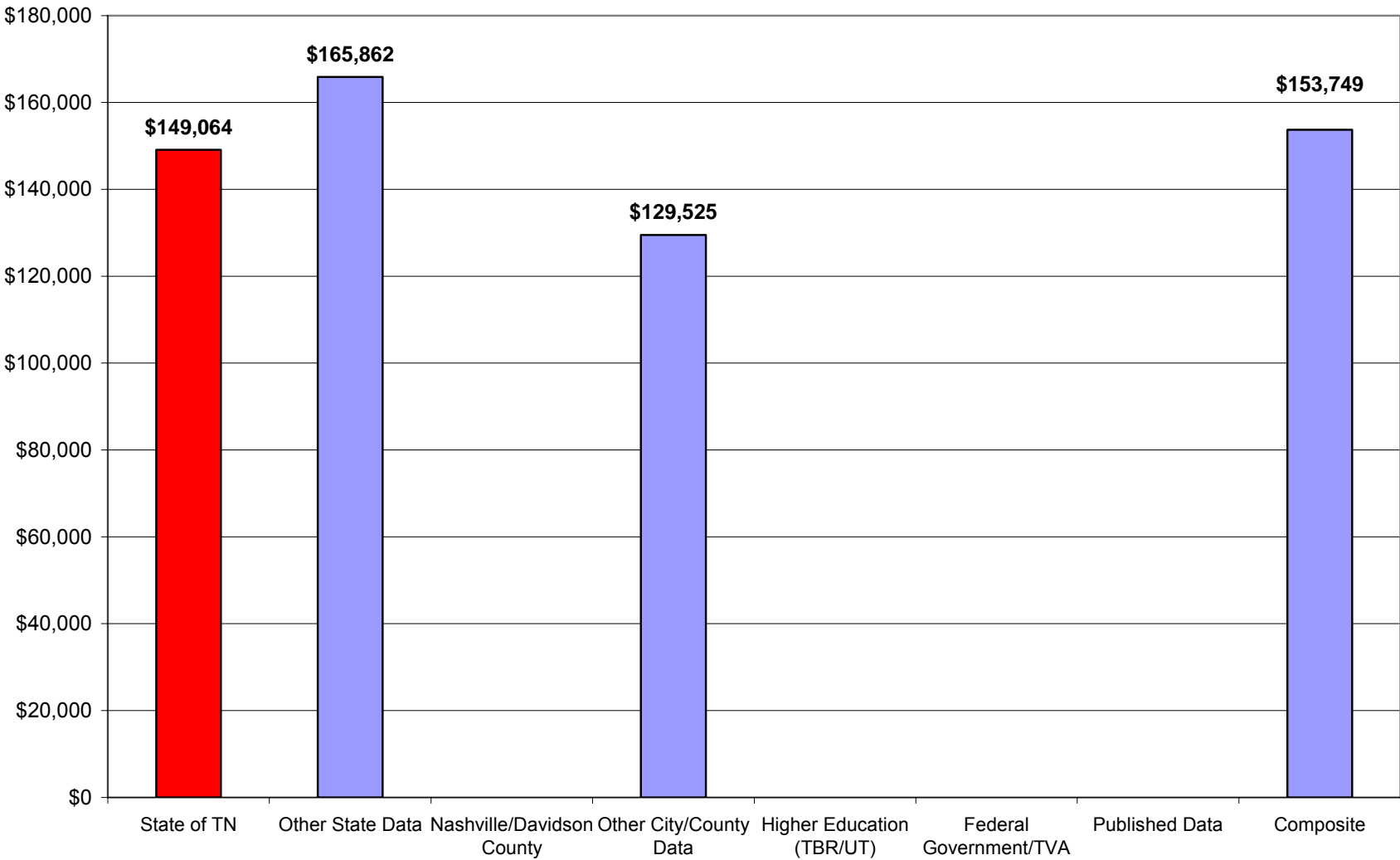
Education





# Executive Compensation Commissioner of Health Services

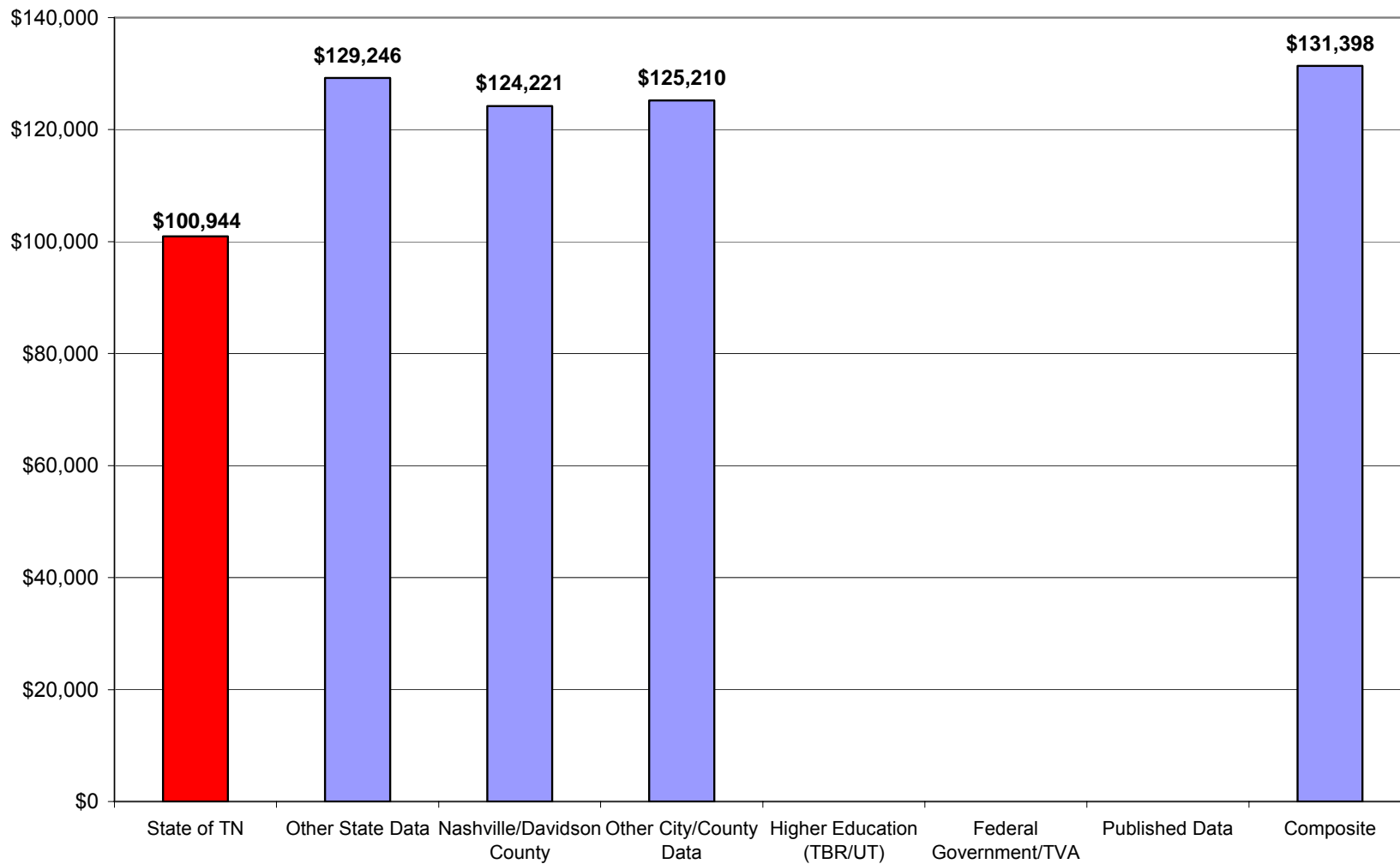
Health





## Executive Compensation Commissioner of Human Services

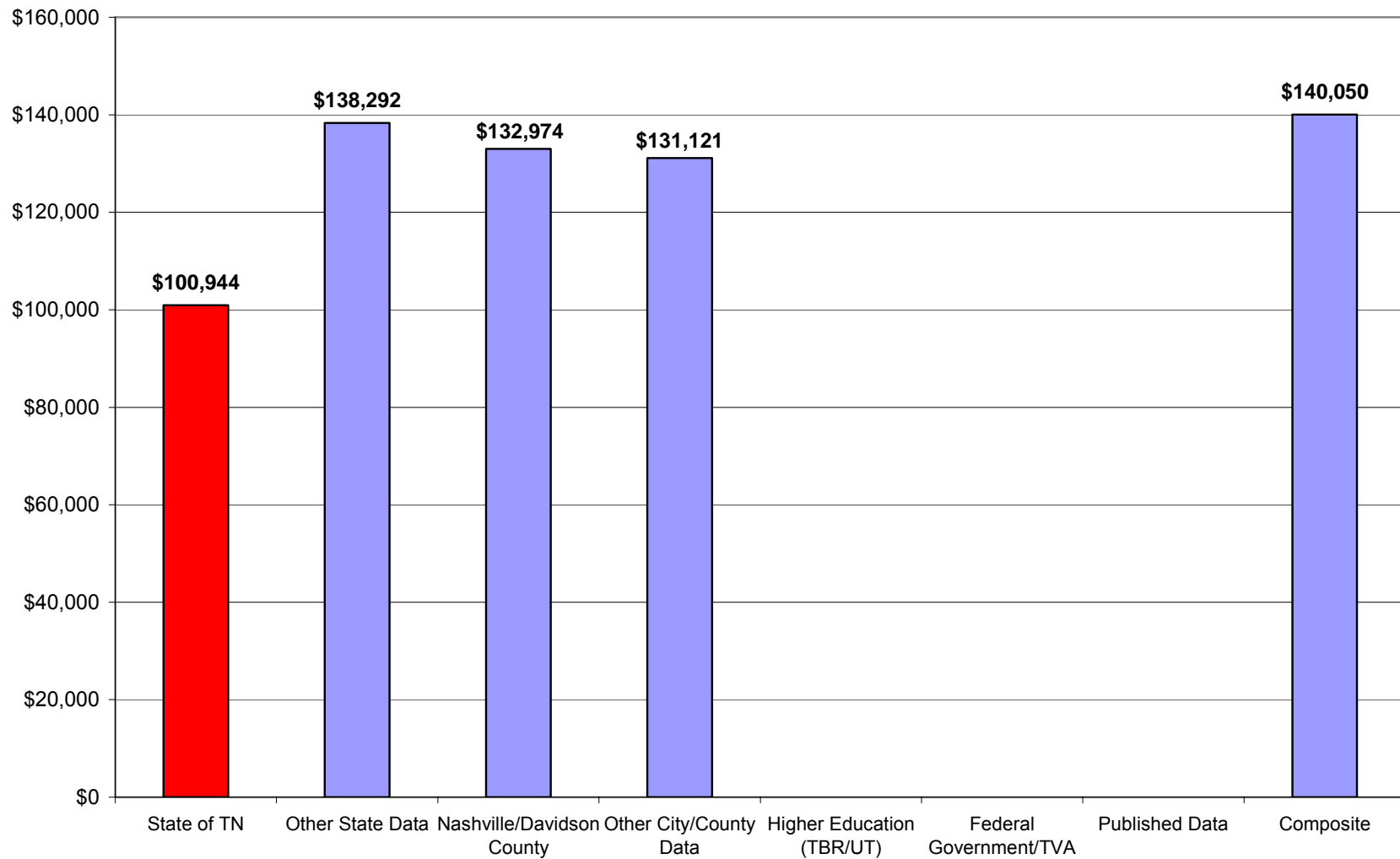
Human Services





## Executive Compensation Commissioner of Transportation

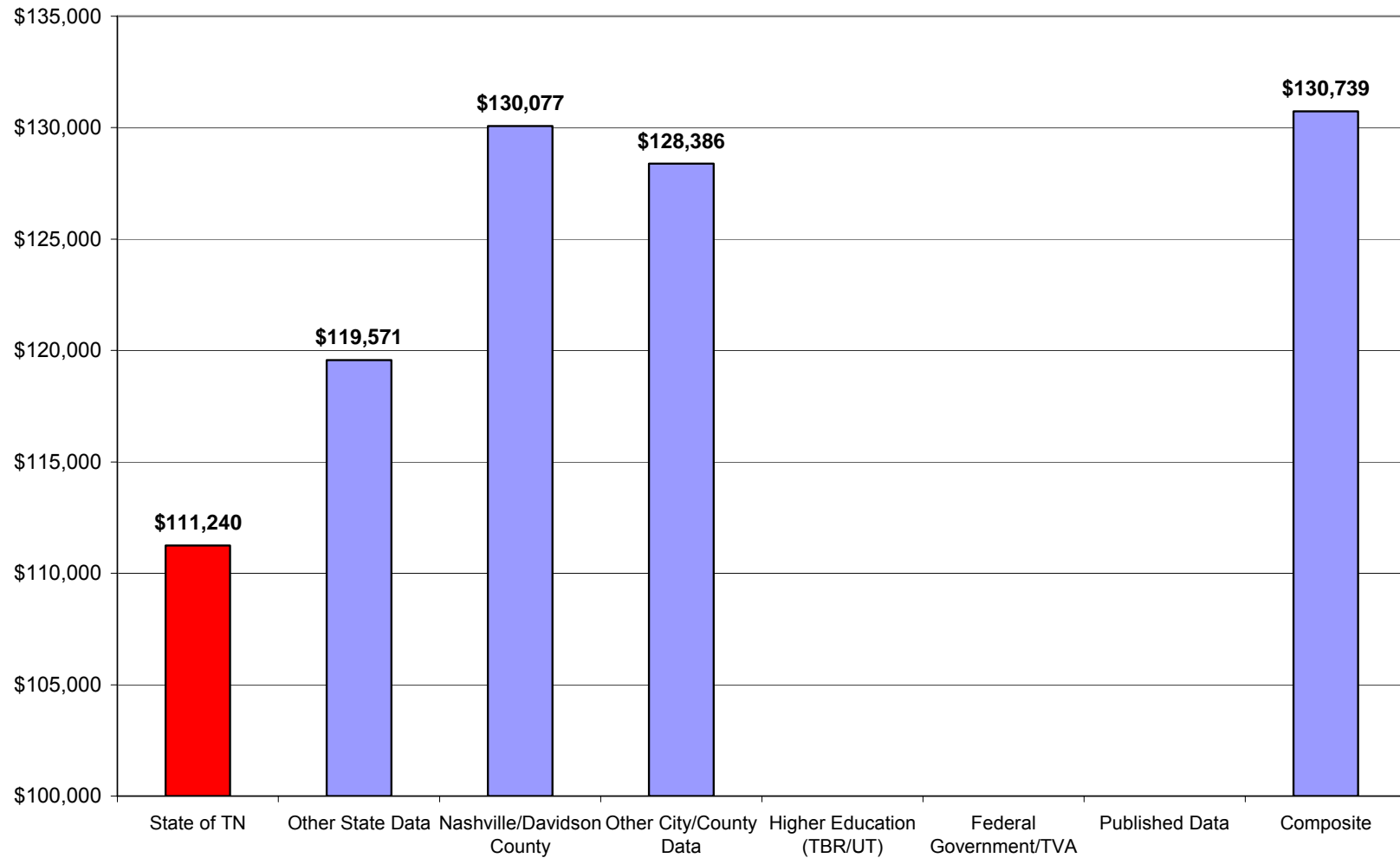
Transportation





## Executive Compensation Commissioner of Corrections

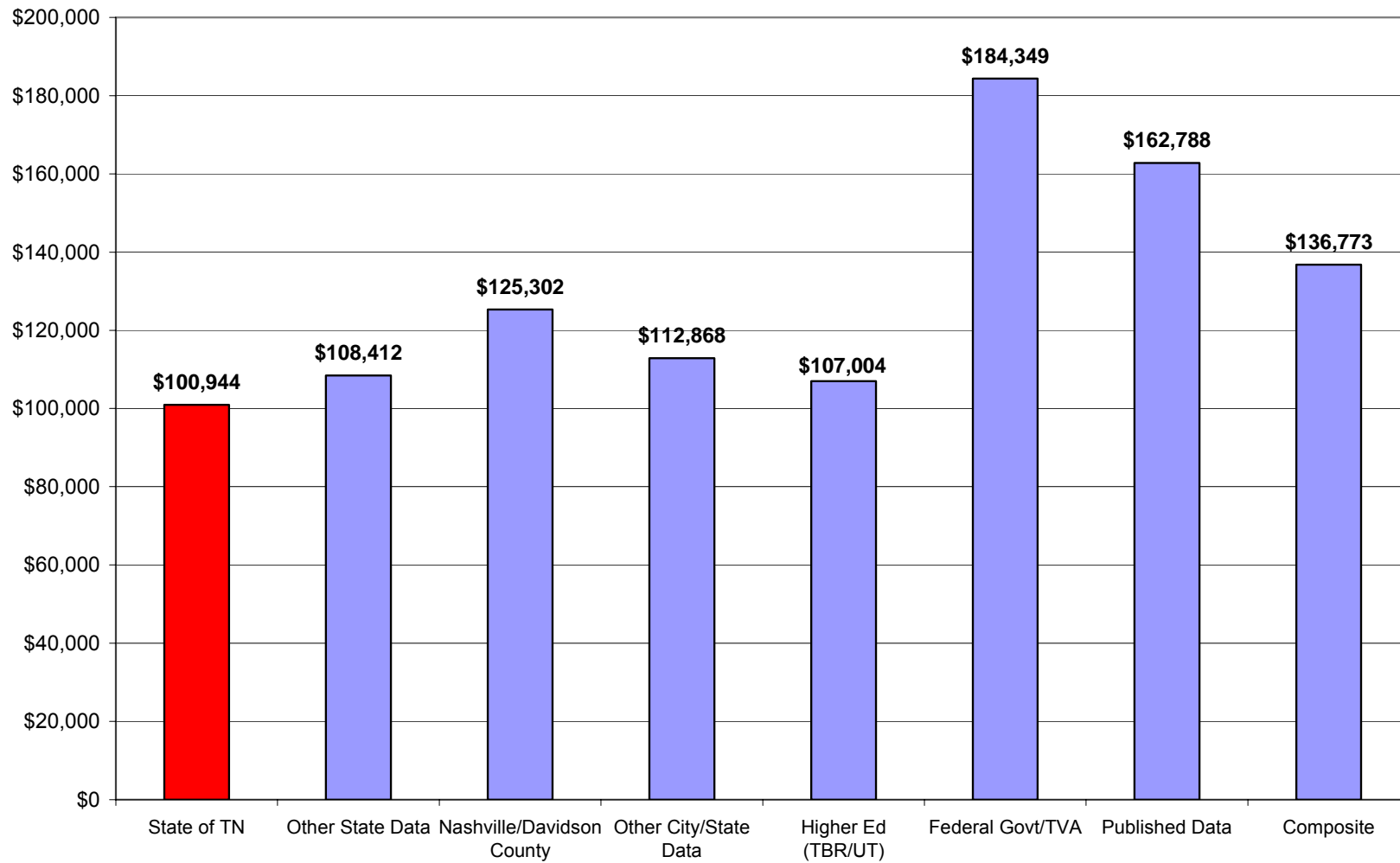
Correction





## Executive Compensation Commissioner of Personnel

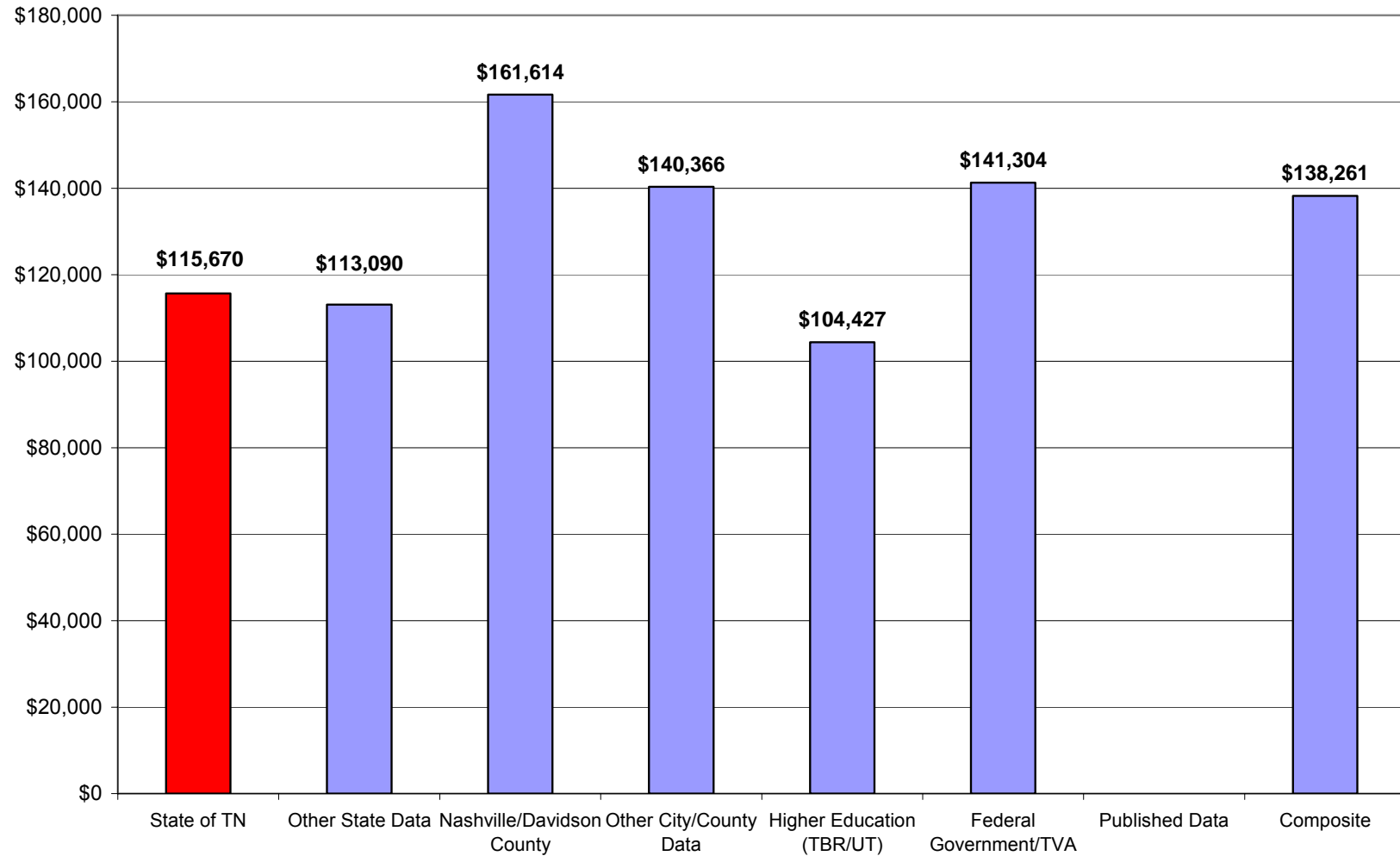
Personnel





## Executive Compensation Commissioner of Safety

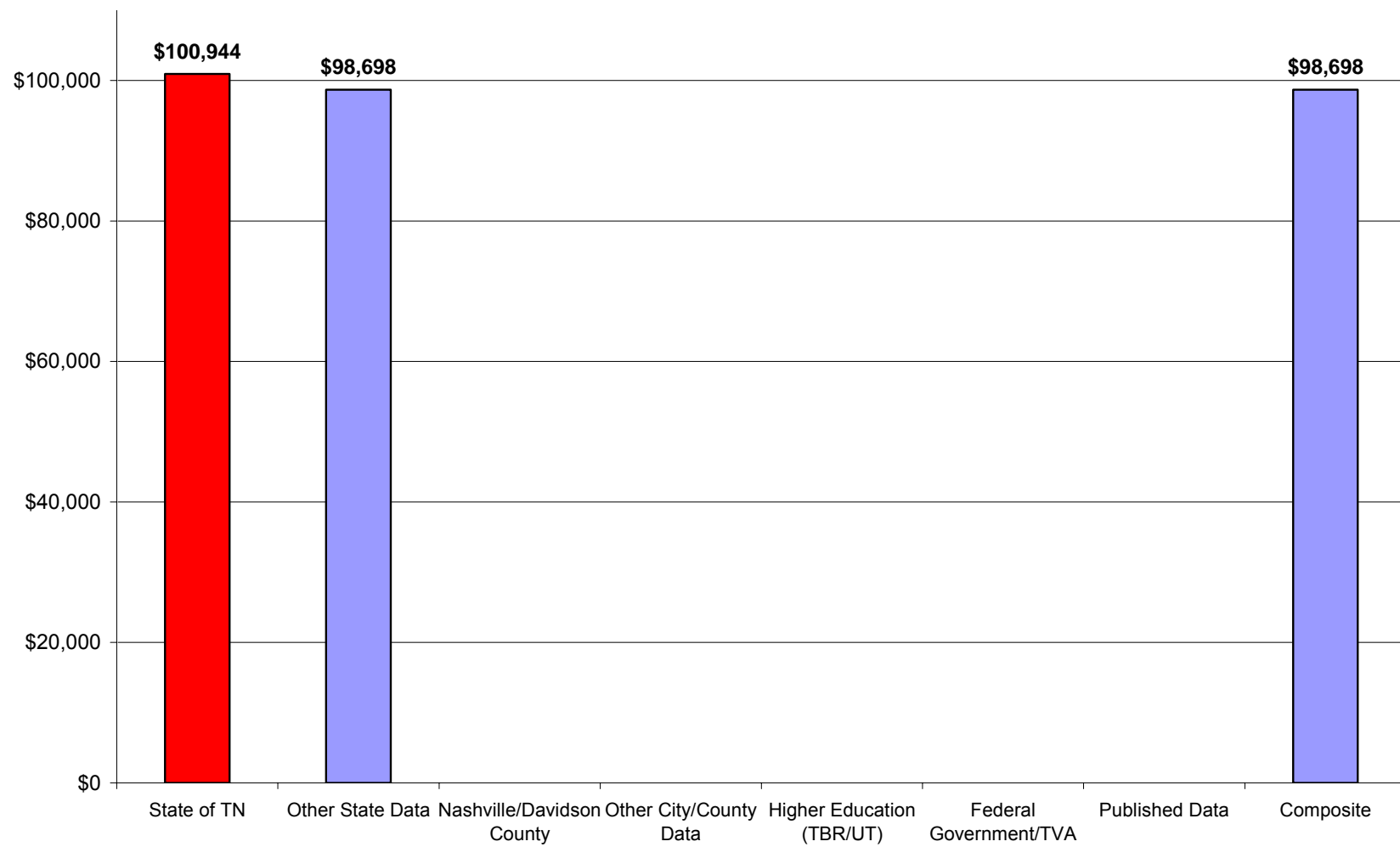
Safety





# Executive Compensation Commissioner of Agriculture

Agriculture





## Base Pay Structures and Policy Recommendations Banding/Grading Executive Positions

- We recommend the State review the classification of Commissioners based on budget and employee scope, taking into account market data – a draft of proposed groupings is outlined in the detailed recommendations.
- We also recommend managing pay for the Commissioners in a band with separate market reference ranges for each level.
- We recommend managing pay for the Assistant and Deputy Commissioners in the top grades of the new recommended structure as shown on the following page.
- Note that there may be a degree of overlap between the Director ranges, the Assistant/Deputy Commissioners and the Commissioners – if Directors are priced and graded appropriately, there is not enough span in the market data grade four levels of Assistant and Deputy Commissioners between the top Director levels and the lower Commissioner levels without overlap.



## Executive Compensation Review and Recommendations

- Based on the total budget, headcount, and market data for the respective agencies, we would classify the agency heads as outlined below: however, these need to be reviewed by the Governor to take into account strategic impact on the goals of this administration and the State:
  - **Commissioner 4** – Finance and Administration, and Education – the first is included based on size and breadth of responsibility; Education is included based on market data.
  - **Commissioner 3** – Human Services, Transportation, and Health – based on budget size, headcount, and market data.
  - **Commissioner 2** – Corrections, Children’s Services, Mental Health and Developmental Disabilities, Environment and Conservation, Safety, Labor and Work Force, Revenue, General Services, Commerce and Insurance, Military, Economic and Community Development, and Personnel – the majority of these are based on budget and headcount size, with Personnel included because of market data.
  - **Commissioner 1** – Tourism, Financial Institutions, Agriculture and Veteran’s Affairs – based on budget size and headcount, with Agriculture based on market size.

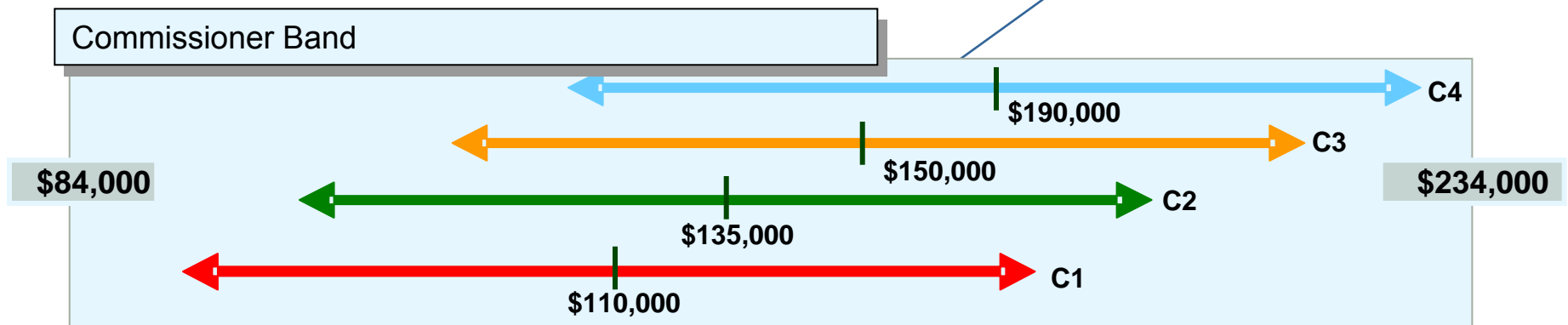
Commissioner 4								
Job Scope	F&A	Education						
Headcount	5456	1091						
Total Budget	\$8.6B	\$4.2B						
Commissioner 3								
Job Scope	Human Services	Transportation	Health					
Headcount	5472	4944	3211					
Total Budget	\$1.9B	\$1.7B	\$0.5B					
Commissioner 2								
Job Scope	Corrections	Children's Svcs	MH and DD	Environ & Cons	Safety	Labor and WF	Revenue	General
Headcount	5365	5022	2853	2555	1908	1579	912	557
Total Budget	\$0.6B	\$0.6B	\$250M	\$336M	\$183M	\$215M	\$68M	\$95M
Job Scope	Com and Ins	Military	Econ and CD	Personnel				
Headcount	683	440	211	115				
Total Budget	\$90M	\$112M	\$96M	\$10M				
Commissioner 1								
Job Scope	Tourism	Fin Inst	Agric	Vet Aff				
Headcount	156	244	658	73				
Total Budget	\$18M	\$15M	\$77M	\$4M				



## Executive Compensation Review and Recommendations

- Mercer recommends each Commissioner position be assigned to one of four 60% market reference ranges within the Commissioner band
  - Each market reference range is set at 100% of market median for the one or more benchmark jobs assigned to the group – C1 through C4 are approximately 10% – 25% apart
  - Pay for individual Commissioners within the bands may need to be adjusted to reflect contribution and appropriate pay relative to direct reports

Reference Range	Minimum	Midpoint	Maximum
C4	\$146,200	\$190,000	\$233,800
C3	\$115,400	\$150,000	\$184,600
C2	\$103,800	\$135,000	\$166,200
C1	\$84,600	\$110,000	\$135,400





## Executive Compensation Bands Review and Recommendations

### Assistant/Deputy Commissioner Recommended Grades

- Assistant Commissioner 1 – Grade 22
- Assistant Commissioner 2 – Grade 23
- Deputy Commissioner 1 – Grade 23
- Deputy Commissioner 2 – Grade 24

### Proposed Structure

Prop Grade	Prop Minimum	Prop Midpoint	Prop Maximum	Mid-to-Mid Increment	Range Width
21	77,200	99,700	122,300	10%	58.4%
22	84,800	109,700	134,600	10%	58.7%
23	93,100	120,700	148,200	10%	59.2%
24	102,200	132,700	163,200	10%	59.7%
25	112,300	146,000	179,700		60.0%

■ In addition, based on the market data we recommend the following executive positions be assigned to grades as follows:

- Chief of Information Systems – 25
  - General Counsel 4 – 24
  - Chief of Accounts – 22